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GROUP OF EXPERTS ON THE UNITED
NATIONS PROGRAMME ON PUBLIC
ADMINISTRATION AND FINANCE
Thirteenth meeting
27 May-4 June 1997
Item 3 of the provisional agenda

# ADOPTION OF THE AGENDA AND ORGANIZATION OF WORK

## Annotated provisional agenda

1. Opening of the session.

2. Election of officers.

The meeting is expected to elect a Chairman three Vice-Chairmen and a Rapporteur.

3. Adoption of the agenda and organization of work.

4. Substantive items for discussion:

The substantive items of the provisional agenda have been determined on the basis of recommendations made by the General Assembly in its resolution 50/225 on public administration and development.

(a) Development of a sound governance environment;

Governance is a concept associated with the legitimate exercise of authority to manage a country's affairs in the interests of the people. In this sense, it incorporates, in addition to the traditional theme of sound public management, broader issues such as the interaction between the State and society, the build-up of social consensus and reconciliation, and the relationship between political transition and institutions. This topic will cover such issues as leadership building, civil society empowerment, political transition, and peace, reconciliation and stability. (document ST/SG/AC.6/1997/L.2)

5. Review of the United Nations programme in public administration and finance:

(a) Programme review and future orientation;

The Meeting will broadly review the activities under the programme and examine the changes that will be necessary in light of the discussion on substantive items for strengthening the role of the United Nations in public administration and development for the benefit of interested developing countries and countries with economies in transition.

The Meeting will also review the medium-term plan for the period 1998-2001 and the proposed programme of work for the biennium 1998-1999. (document ST/SG/AC.6/1997/L.9)

(b) Implementation of the United Nations information clearinghouse;

Since the establishment of the programme in public administration, the United Nations has continuously performed the role of clearinghouse for information and research in the field of public administration. The resumed fiftieth session of the General Assembly provided the forum and the instrument for the revitalization of the clearinghouse function, reflecting the increasing demand for information taking advantage of current technology. The Meeting will review the status and plans for the implementation of the United Nations information clearinghouse function. (document ST/SG/AC.6/1997/L.10)

(c) Coordination with other United Nations bodies and the specialized agencies.

The Meeting will also review the public administration and finance programmes and activities of other United Nations bodies and specialized agencies and suggest approaches and modalities for better coordination. In that connection, an informal inter-agency consultation and working group will be convened on 3 June 1997. (document ST/SG/AC.6/1997/L.9)

6. Adoption of the report of the Thirteenth Meeting of the Group of Experts.

In accordance with established practice, the Secretary-General will submit a report on the Thirteenth Meeting of the Group of Experts to the Economic and Social Council at its 1997 regular session. The Meeting is therefore expected to adopt a report on its discussions and recommendations for submission to the Secretary-General.

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(b) Enhancing the professionalism, ethical values and image of the public service;

The renewed expression of interest in administrative ethics indicates a growing concern on the part of many governments to address this issue squarely and the realization that, unless effective measures are taken to ensure administrative ethics, the outcomes of reforms in public administration will be in jeopardy. This topic will cover such issues as human resources development and professionalism in the public service, fundamental elements of a civil service code of ethics, transparency, combating corruption, and enhancing the image of the public service. (document ST/SG/AC.6/1997/L.3)

(c) Redesigning the State for social development;

In the Copenhagen Declaration and Programme of Action of the World Summit for Social Development and in the outcomes of other recent international forums emphasis was placed on the need to implement profound changes in economic and social policies in order to counteract the tendency towards deterioration in the global social situation. This topic will cover such issues as the integration of social and economic policies, public management reforms to enhance the capacity of the State to deliver basic social services, social safety nets, including traditional forms of solidarity, decentralization and communities/people's participation in the formulation of national social policies, formation of human capital and social management. (document ST/SG/AC.6/1997/L.8)

(d) Creating an enabling environment for private sector development;

It is increasingly recognized that an effective enabling environment is a necessary factor in the promotion of entrepreneurship and privatization for economic growth and sustainable development. In that context, this topic will examine such issues as the enabling environment for private sector development, legislation and institutions for protection of property and enforcement of contracts, power, transport and communications infrastructure, credit policy and institutions, including microcredit, protection of vulnerable groups, and promotion of disadvantaged groups, public enterprise privatization, restructuring and reform; and contracting out of government activities. (documents ST/SG/AC.6/1997/L.6; ST/SG/AC.6/1997/L.7)

(e) Strengthening governmental capacity in the mobilization, management and accountability of financial resources.

An important aspect of sound governance is ensuring the highest level of efficiency and effectiveness in the mobilization and management of all resources available to government in order to accomplish its purposes - including financial, information and human resources. This topic will cover such issues as stabilization policies and public sector management, public expenditure management, domestic and external resource mobilization, tax policy, and tax administration and international taxation. (documents ST/SG/AC.6/1997/L.4; ST/SG/AC.6/1997/L.5).

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27 May-4 June 1997

# CREATION AND MAINTENANCE OF A SOUND GOVERNANCE ENVIRONMENT

Report prepared by the Secretariat*

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# I. INTRODUCTION

1. As the twenty-first century approaches, many Governments have been seeking to strengthen governance institutions and relationships in their countries in order to improve the social and material conditions of the people. Governance, which is a society-wide process, rather than a specific policy outcome, generally involves an opening up of processes to both participation and public scrutiny. Rather than a distant State-client relationship, partnership relations between Government and society are nurtured in order to promote development and well-being, especially within a framework of rule of law, which provides a level playing field for social and economic activities. Indeed, paragraph 4 of the Copenhagen Declaration on Social Development,[1] adopted at the World Summit for Social Development, stated that "democracy and transparency and accountability of governance and administration in all sectors of society are indispensable foundations for the realization of social and people-centred sustainable development".

2. The exact nature of governance characteristics and governance-enabling programmes depends upon the social, economic, and historical context. Conditions of peace, stability, social integration, resource endowment, economic development, and "rule of law" influence the style of social interaction and the relationship between Government and society. The degree of misfit between current national conditions and the trends in the global economy and the information age determine the extent of need for re-alignment of institutional and managerial processes, and the amount of stress and strain on governance processes.

3. Governance is closely linked to both development and peace. Development strategies can more effectively be pursued when widespread participation supports commitment to a shared vision. Furthermore, government institutions and national development provide a platform for peace and stability which further strengthen economic progress and development. When peace, development and governance processes coincide, one can usually identify effective institutional arrangements, streamlined decision-making processes, inclusive policy formulation, participatory implementation capacity, multidimensional information flows, and a vigorous partnership between Government and society.

4. Several cultural characteristics also influence the degree of flexibility and adaptability to changing circumstances, notably, embrace or avoidance of uncertainty, centralization or deconcentration of power, degree of emphasis on hierarchy, and long as well as short-term orientation. The most adaptive culture involves uncertainty-embrace, diverse power centres, less hierarchical organizations and long-term orientation.

5. During the last decades, many societies have been affected by dramatic shifts in economic and/or political framework, resulting from transition to market economy, violent conflict or need to provide more effective services at lower cost. Especially in the case of violent conflict, events disrupt economic development efforts and challenge political processes to mitigate violence and establish peaceful means of conflict resolution. Under these conditions, the government administrative machinery is both a victim and a solution. First,

government administrative machinery is a sought-after prize of social conflict and often breaks down under economic stress or war-like conditions of upheaval, uncertainty and distrust. But while the processes of Government are disrupted, it is these same government institutions which can be re-oriented to establish a basis for reconciliation, stability and renewal of social and economic life.

6. In order for sustainable governance to emerge, strong leadership capabilities and civil society empowerment are needed. Government institutions and administrative machinery need to be capable of stimulating economic development, managing mechanisms of conflict resolution and prevention, and delivering programmes for social development. Appropriateness and success of these policies and operations depend upon widespread citizen participation in policy dialogue and implementation strategies that involve private sector, non-governmental organizations and community-based organizations.

7. This complex situation contains many interrelated elements, each of which cannot be dealt with in isolation, but must be approached within a holistic, integrated framework. Governance is inherently multidimensional, especially focusing on social, political, legal and economic aspects. Indeed, appropriately combining social, political, legal and economic strategies can provide a catalyst for dynamic, multisectoral development progress. The strongest development tools are those that utilize a multi-systems approach to capture and make sense of complexity. In each sector - for example, education, health, employment and production - and for each level - for example, national, intermediate and local - there are many systems and subsystems; all lead to purposeful results linked to a development vision. When improvements in these various systems are linked strategically, the systems are mutually supportive and most productive.

8. Research on futures indicates both a trend of "variety" and a trend of "dynamics". The trend of variety recognizes the increasing number of relevant influences on any system, stakeholder or action. The trend of dynamics recognizes the increased rate of change, as in shortened production cycles and the doubling of human knowledge, allegedly, every five years. In order to cope and be successful in such an environment, national governance systems need to be open, flexible and adaptable to changes in the network of relevant relationships. Indeed, prudent leaders guide their organizations in the development of multiple future scenarios through systems thinking.

9. Strategies can be based on (a) scenarios with the greatest opportunities, (b) scenarios with the greatest probability, and (c) scenarios with the greatest threats. When leaders embrace the future through scenario building, they are more able to lead their governance systems to outcomes that are useful for social and economic development. As well, scenarios taking into account multiple systems and networks of systems lead to outcomes with fewer surprises and greater progress. Leaders incorporating systems thinking, feedback, and learning into their strategies can develop programmes that are more adaptive and innovative.

10. Examples of single systems are feedback, finance, marketing, personnel, planning, legal, information, monitoring and evaluation. The next higher level of "organization" is illustrated by a health clinic, corporation or school,

which operates many systems and subsystems. At the single sector level, one finds, for example, the banking sector, the health sector and the rural sector. At the multisectoral level, one finds joint development of, for example, the production sector, encompassing many organizations and thousands of single systems, all connected by contractual and input-output linkages. At the level of the whole economy or the whole society, or even the whole "governance system", one finds thousands of organizations with millions of systems activated by personnel who perceive that they are operating within one or more system or sets of systems. As well, national governance systems are situated within specific regional and global systems that influence opportunities and constraints for each national governance system. With complexity growing, managerial systems are under greater demands for effectiveness. The performance of leaders and other stakeholders within national governance systems improves when they comprehend these complex systemic relationships and can maximize productive activities within a dynamic three-dimensional web of systems.

11. Many societies are in the midst of the transition to a market economy and find themselves situated in an unstable equilibrium between a central planning orientation and a systems approach appropriate to market economies. The relevant shifts include change to entrepreneurial managerial skills, decentralization of economic management decisions, re-orientation to a contractual legal framework, and complex Government-society relations. Neglect of any element - behavioral, institutional, legal or partnership - can lead to weakness in related elements. In situations in transition, government institutions provide an enabling policy framework and a regulatory legal framework in order to guide and facilitate private sector and entrepreneurial development.

12. These essential activities require strong leadership capacity in both coordination of priority setting and effectiveness of operations. With open participation of a wide variety of social actors, government priorities can represent agreed-upon policy decisions concerning the future directions of social and economic policies. The very existence of a policy-development dialogue that involves a wide variety of interests, especially those of post-conflict combatants, is a testament to the rebuilding of the political fabric of the society. The establishment of an administrative machinery for governmental operations leads not only to the delivery of needed services but also to the rebirth of confidence in national political and administrative processes. Commitment to individual, family and community development reinforces the central role of government administrative machinery to facilitate sustainable development.

13. The United Nations is involved in a wide variety of governance-strengthening activities. These governance programmes promote strong institutions in public, private and civil society sectors. Specific activities involve strengthening legal frameworks, especially for human rights and business contracts; service delivery, including social, economic and security issues; policy-making and implementation, especially in key policy clusters; decentralization, including strengthening local governments; private sector development, including entrepreneurship and privatization; non-governmental organizations, and related organizations, especially in their role of promoting access to decision-making and services; electoral commissions and electoral

processes, including registration and civic education; legislatures, courts and ombudsmen, especially training personnel and establishing management information systems; media, as it relates to public policies, the expression of citizen needs and the examination of government performance; and attention to promotion of tolerance, harmony, solidarity and conflict resolution, as well as reduction of corruption.

14. These governance activities are strongly motivated and directed by General Assembly resolution 50/225. In that resolution, the Assembly reaffirmed that democracy and transparent and accountable governance and administration in all sectors of society are indispensable foundations for the realization of social and people-centred sustainable development (para. 5). It recommended focusing activities on, inter alia, strengthening government capacity for policy development, administrative restructuring, civil service reform, human resources development and public administration training (para. 13). In working towards these goals of strengthening governance, the Assembly emphasized the value of international cooperation and stressed the need for increased cooperation and coordination between the United Nations programmes.

15. Overall, these governance activities are designed to increase participation, strengthen accountability mechanisms, and open channels of communication among people, institutions and organizations. All interventions are guided by principles of participation, accountability and openness. Key elements are (a) vision and leadership, (b) civil society empowerment, (c) public institutions, and (d) special case of post-conflict situations.

## II. VISION AND LEADERSHIP

16. For society, "vision" fulfils a function of providing a focus or direction for action that motivates people to participate in activities for the improvement of social and economic well-being. A high quality vision gives priority to the poor, advances women, sustains the environment and creates needed opportunities for employment and other livelihoods. In the widest sense, a governance vision represents "the future" to the present; that is, the vision includes a long-term, strategic approach to social and economic development within a framework of resource conservation and social integration. A vision can motivate best when many individuals, organizations and sectors participate in conceptualizing the vision and share in establishing and maintaining dynamism. A major role of governance is the linkage

17. When each social, economic and political organization is expected to have a point of view and interests, it is government institutions through representation and participation that can portray cohesive social values and especially provide a platform for discussing and integrating various interests. Many mechanisms, such as decentralized planning, scenario-building and future-search conferences, promote the development of development strategies that are socially responsible and economically practical, as well as create a compelling sense of direction for the society.

18. Government leaders in a wide variety of institutions need to be technically competent, politically astute, and skilled in building consensus and

partnerships. While there are many models of governance systems, every model has some mechanism(s) for developing leadership, including selection, recruitment, training, experiencing and working together in various governmental institutions. Both specialized technical and managerial competence are necessary in order to operationalize vision into strategies, programmes and activities for development. Improvement and intensification of these leadership development processes are key to achieving development successes, especially in a highly complex and competitive international environment. Many Governments are establishing sensitization and skill-building programmes for top leadership, often not only for senior civil servants, but also for politicians and leaders of private sector organizations and non-governmental and community-based organizations.

19. In the 1990s, expectations of leaders are high, behavioral models are few and unproven, old rewards and perquisites are slipping away, and there is widespread dissatisfaction, finger pointing and occasionally even violence towards leaders. The international context requires leaders capable of inventing visionary programmes, managing detailed activities to successful outcomes and communicating across cultures, communities and conflicts.

20. These modern leaders suited to organizing societies and institutions for the twenty-first century conditions are participatory, rather than authoritarian. Whether through party mobilization mechanisms, multi-partyism, community-based activism or sector advocacy, leaders need to encourage expression of perception and interest in order to result in a society-wide vision that can be implemented with enthusiasm and dynamism. Equally important is the flow of information among all stakeholders, who are encouraged to review operations and results in order to improve effectiveness and efficiency. Through a wide variety of accountability mechanisms, including ombudsman, legislature, auditor-general, and policy dialogue, people are informed and able to hold Government accountable for its operations and results.

21. To achieve sustainability in social cohesion and economic development, government institutions need to encourage participation of all sectors in a wide variety of accountability mechanisms. Through this participation, individuals and organizations will be knowledgeable about development programmes and committed to integrating their efforts into national efforts, thus enabling everyone to contribute to the realization of a national vision of progress. Through regular and periodic accountability reports, everyone can measure the efficacy of their efforts and improve their contribution to national progress. If some segments of society are lagging behind in participation in development efforts and/or benefits, or if some activities such as corruption are identified as detrimental to development, accountability mechanisms can identify these facts and lead to resolution of issues.

22. An example of an innovative and participatory accountability mechanism is community-based benchmarks. Through a visioning, specification and targeting process, community members are able to contribute to the process of determining current levels of development indicators for their community and setting reasonable targets for future development activities. This governance benchmark process establishes a regular mechanism for a representative cross-section of a community to development and update community development indicators

(benchmarks) for measuring the attainment of those goals. The benchmarks are developed through widespread participation in the community, which not only can steer their community participation towards these goals, but also can hold the Government accountable for the use of resources for the achievement of these goals. Owing to the increasing popularity of decentralization as a strategy for economic and social development throughout the world, this governance benchmark process can be an attractive mechanism for achieving a development vision through community-based government.

## III. CIVIL SOCIETY EMPOWERMENT

23. Widespread participation in governance processes results in more sustainable social and economic development for the widest range of citizens. A serious constraint is literacy; that is, people can best participate when they can read, write and understand political discourse, when they can engage in social interaction on an equal basis, and when they can initiate and maintain economic activities. Literacy and understanding also contribute to the ability to vote in political elections, to read laws, policies and reports, to share ideas and perspectives with each other, and to link their economic activities with the national and global economies. Government plays a major role in encouraging a literate, numerate and informed citizenry. Government educational institutions provide basic knowledge and access to information. In the 1990s, this access can include facilitating linkage to the Internet and its information resources and communication channels.

24. Empowerment of civil society encourages diversity of views, sharing of individual and organizational responsibility, learning-focused strategies, and the emergence of formal leaders who serve as stewards of their societies. Meaningful involvement includes, from most passive to most active, (a) awareness of current conditions and future orientations, (b) participation in social, political and economic activities, and (c) initiative in developing approaches to the future. With awareness, participation and initiative, citizens can influence their context and contribute to their development. Opportunities for civil society involvement include both interest group politics and consultative institutions, such as policy conferences, leadership summit meetings and community consultations.

25. Empowerment of civil society further entails facilitation and encouragement of civil society organizations as platforms for individual participation in policy dialogues and access to the means to communicate views and perspectives. These civil society organizations institutionalize and give voice to public concerns. Under optimal governance conditions, public institutions welcome initiatives and feedback from citizens and respond actively to the needs and viewpoints. Although lively public dialogue can be time-consuming, the agreement and commitment that results ensures sustainability of public policies and programmes. In some cases, public dialogue is an "investment" in social cohesion and dynamic economic development.

26. Well-tuned governance facilitates involvement of trade unions, employer organizations, religious organizations, cultural organizations, public interest organizations, community-based organizations and political organizations. These

organizations are not only allowed to operate with relatively little regulation but they are given a regular and institutionalized voice in policy debates, thereby providing fully for interaction between government and civil society. Although distance can be a barrier to effective participation, government can facilitate participation through face-to-face conferencing, radio, television and where available, electronic means.

27. Where there exists multidimensional sharing of information and perspectives through public dialogue, shared vision and social consensus can emerge and be supported through mutual interaction, appreciation and joint participation in national initiatives especially for economic development. Through policy dialogues, people and organizations develop commitment to working together.

28. Participatory governance training is an effective way to energize a society for achieving shared goals. For example, multi-organizational and multi-level governance training that involves not only local government officials and staff, but also citizen-constituents and representatives of central Government encourages local governance. In this case, effective capacity-building of local government can best be achieved by recognizing key elements of the context and integrating that context into the training; that is, learning skills of communication, coordination and interaction between local government, citizens and representatives of line ministries.

## IV. PUBLIC INSTITUTIONS

29. Within a governance context, public institutions play a key role in providing mechanisms for sharing of information and coordinating activities. In their role of "representing the future to the present", public institutions embody the agreed-upon development vision of the society and provide a platform for cooperation and coordination. An enabling bureaucracy facilitates community responses to real contingencies that emerge in the course of historical and everyday life.

30. For example, "rule of law", a keystone of governance relationships, is facilitated by an independent and efficient judicial system supported by sound police facilities and an affordable and speedy court system. Social relations, and especially business contracts, depend upon an objective justice system open to all petitioners and protecting human rights as modelled in the many international conventions, usually facilitated by the United Nations. As well, a sound constitutional framework provides for judicial review of government actions, usually performed by an independent court or council of the judiciary. For justice systems to function, programmes need to be developed for facilities, finance, human resources and public information and access.

31. Equally important to governance is the establishment and maintenance of representative institutions, such as legislatures at national, intermediate and local levels. Legislatures provide space for open policy dialogue and debate. When citizens and organizations have the opportunity to voice their needs and perspectives, they are more likely to participate in nation-building programmes and compromises. Like justice systems, legislatures have finance, human

resources, information and facility needs. Essential also is strong linkage to constituents on a continuing basis.

32. Political transitions through elections and other expressions of popular views, such as referenda and public initiatives, represent the orderly reflection of shifts in popular sentiment. Currently, increasing numbers of Governments are holding national, intermediate and local elections, supported by voter registration and civic education, in order to attain greater public awareness, support and participation in development activities. Generally, elections are very popular and people are eager to learn and practise civic responsibilities and duties. Election institutions are responsible not only for voter registration and civic education, but for the many technical aspects of carrying out the balloting and counting processes.

33. A further expression of institutional development is the strengthening of decentralization and local governments. In addition to defence and foreign relations, many key governmental development functions are most likely to be performed through institutional monopolies, primarily at the centre. These centre-focused functions include macroeconomic stabilization and redistributive allocations to vulnerable sections of society, although actual allocations can be made through deconcentrated administration. As well, the comparative advantage of central institutions in mobilizing finance is likely to continue, with local-level governmental units still dependent upon them.

34. On the other hand, decentralization involves a shift of some or all responsibility for a governmental function to local administration and/or local governments. Criteria for central-local allocation of responsibilities are guided by three design principles: accountability, efficiency and effectiveness. Together these three principles optimize the mobilization of public resources. Accountability means holding public servants responsible for the outcome, efficiency is the positive relationship of resource outputs to inputs, and effectiveness is a measure of the appropriateness of outputs. Within the context of governance, accountability takes on the greatest importance, largely because it is a way to achieve efficiency and effectiveness.

35. When roles and tasks are not monopolized but shared between central and non-central public and private levels, greater accountability is achievable. When tasks are performed by a monopoly, usually centralized, services are delivered at higher costs, with less efficiency and within a less accountable framework. Referring to roles and tasks makes administrative design both concrete and dynamic. It is concrete, for role directly relates task and the organization or institution. It is dynamic, because role can change over time and be managed by different organizations, institutions or combinations of them. Distribution of tasks to local governments requires a significant capacity for policy development and implementation. Scarcity of capacity at local level is a continuing issue for late-developing countries.

36. Inefficient management often occurs at both headquarters and deconcentrated field levels because accountability systems are weak or non-existent. Thus, decentralization requires strategies not only for adequately resourcing local governments but also for holding local public institutions accountable for programme operations and outcomes. Often, either the centre highly

circumscribes local discretion or few or no resources are available for acting upon the discretion. Accountability manages discretion, and discretion is the essence of administrative decentralization.

37. A strong centre, with a relevant enabling environment, is a prerequisite to meaningful and effective spatial decentralization and is necessary for role decentralization. Obstacles that impede decentralization include coordination and monitoring, as well as regulatory and feedback frameworks. Currently, many Governments are in the midst of experimenting with decentralization of strategies, most notably with development planning and service delivery. The great variety in experiments makes for fertile ground for international exchange of experience and expertise, particularly through South-to-South cooperation.

38. None of these institutional strategies or partnerships can be successful without a strong, informed and committed public service, with the necessary knowledge, skills and attitudes. The scarcity of a skilled public workforce is especially critical at local levels, where the greatest number of civil servants are needed, often to fulfil sensitive responsibilities for remote populations. Being the backbone of public institutions, the public service contributes to ethical action frameworks, implementation capacity and national consciousness. Entrusted with public responsibilities and public resources, civil servants need to be trained to focus on the public interest within a context of a sustainable future. Public institutions, as well as the civil servants that manage them, need to be held accountable through various mechanisms, such as legislatures, elections, ombudsman, audits and benchmarks. These governance elements link public institutions, civil servants, leaders and citizens in the context of a publicly agreed-upon development vision that guides accountability, feedback and organizational learning. Indeed, accountability mechanisms are a key linkage among stakeholders in governance.

39. Effective performance of civil servants and public institutions results from clarity of purpose, explicit responsibility, dynamic coordination, results-orientation, linking results and costs, and instilling values that promote performance. In a complex and changing world, with multiple systems and many levels, organizational performance depends upon doing the right task very well and at least cost. In a sound governance condition, the performance of central institutions, i.e., policy frameworks that they establish operational ministries, agencies and local administrations and governments, is monitored, measured - both quantitatively and qualitatively - and evaluated, using performance indicators and benchmarks to provide feedback and learning to public administrators. In high performing governance systems, consequences emerge from high and low performance, as well as non-compliance. Leaders and civil servants seek to improve their own performance, and citizens provide feedback on the quality and quantity of services provided by and through government policy and operations. Performance improvement programmes emphasize developing measurable indicators of operations and their consequent results in order to use this information to reform weak processes.

## V. SPECIAL CASE: POST-CONFLICT SITUATIONS

40. Peace, reconciliation and stability are linked to developing mechanisms of conflict resolution and policies and programmes of social reconciliation, thereby leading to recognized, appreciated and legitimate Government. For example, an emerging post-conflict situation is situated in a delicate and subtle process, just as likely to slip backwards into the abyss of violence as to confirm peaceful tendencies. Societies need to be able to imagine peaceful resolution of conflict and stable social and economic conditions. People need to be able to trust that their leaders and the government administrative machinery will not only support but also enforce the mutual, cooperative strategies of individuals and communities. By leading to the establishment of trust and confidence, effective government institutions and administrative machinery can shed the image of a victim of destruction and emerge as a protagonist in the restoration of the social and economic life of the country.

41. Especially operating under conditions of social and economic stress and turbulence, the government machinery can provide a framework for setting priorities for the society, for enabling the economic engine of growth to reassert itself, and for establishing mechanisms for peaceful social interaction. Especially in post-conflict situations, government administrative machinery can re-establish needed social services, essential infrastructure such as roads and telecommunications, credit institutions, sharing of information through media and through social interactions, and legal mechanisms for settling contract disputes as well as identifying and punishing criminal behaviour. Government institutions accomplish these tasks through (a) organizing the Government itself to establish policies and implement necessary programmes to support the reconstruction strategies of communities throughout the country, (b) enabling private sector development, and (c) encouraging non-governmental organizations to participate in community life and encouraging civil society empowerment, enabling citizens to express their needs, priorities and opinions on social and economic issues.

42. Socio-political disruptions, as well as dramatic economic shifts, lead to uncertainty and unpredictability. Social trust can be increased through a predictable legal system based on rule of law. With no one above the law, everyone can engage in social and economic activities knowing that a fair, impartial, and predictable system of adjudication awaits any disputes. Without this rule of law, individuals and communities feel justified in taking the law into their own hands or acting above the law. The knowledge that effective and efficient government administrative machinery is in place can discourage violent activities. Likewise, government institutions are strengthened with every passing day of peace. Development and peace are inextricably linked, and must be engaged simultaneously.

43. Especially in post-conflict situations, government administrative machinery can play a strong role in coordination of donors. Without a government machinery capable of developing political priorities and implementing government programmes, a war-torn society can continue to be at the mercy of the international community, which at best focuses on its perception of the interests of the society, and at worst focuses on the priorities of the international donor agencies who may have even been connected to the dynamics of

the violent conflict. Strong government administrative machinery provides focus and direction for the relief and development activities of the international community.

44. A starting point for restoring government administrative machinery in situations of conflict is an assessment of the existing administrative network. In some cases, the administrative machinery is intact and adversely affected only by orientation of budget priorities to military purposes. If national governmental machinery exists, then an assessment can be made concerning its financial, human and material resources capacity. This capacity assessment can be most effectively accomplished by a joint government-donor community team, thereby combining an understanding of local conditions and needs with donor capacity and interest. Although there is a tendency for humanitarian and technical assistance to be donor-driven in complex emergency situations, the inclusion of Government on assessment and management teams increases the likelihood of relevance and sustainability.

45. In the most extreme cases, the national government no longer functions or operates only within a limited territory. Infrastructure has been damaged, supplies have been looted and personnel killed or missing. Restoration is most difficult when damage has been greatest and especially where personnel costs have been high. Where the governmental institutions, non-governmental organizations, and basic social structures have been decimated, those people who are left cannot find familiar frameworks for mutual trust and assistance. Under these extreme circumstances, the restoration process is not only physical, economic and social, but also psychological. Rebuilding programmes in all these areas depend upon the existence of a minimum level of government activity to assess needs, set priorities and organize programmes. Thus, long-term development depends upon the restoration of government administrative machinery.

46. Restoration efforts are affected by the characteristics of the government administrative machinery prior to the violent conflict. If the government administration was well-articulated, with clear policy-setting mechanisms, strong implementation agencies and a reputation for delivering needed services to the people, then the goal of restoration will have a reasonable target concept which would be well-understood by the government officials as well as the people. If the previous governmental machinery was decentralized or at least deconcentrated to levels close to the grass roots, the local people will be able to articulate their expectations in a realistic manner. If services were delivered effectively and efficiently, there will be a high standard by which to assess restoration efforts. If government business had been carried out in a transparent and accountable manner, the people will be able to participate in restoration efforts because they will be knowledgeable and accustomed to participation in the machineries of government. Because restoration processes are expensive and time-consuming, it is useful to involve citizens fully not only so that they will understand the difficulties and the successes, but also so that they can participate in restoration processes at local levels.

47. It is equally important to note the extent to which the prior administrative machinery was modern, up-to-date, and reflected the best means for setting and implementing government policies. A restoration process

provides an opportunity to re-think the missions of the State and the means of achieving those tasks designated for government responsibility. To the extent that every modern government is in the process of "re-inventing" or "re-engineering" itself, the restoration process provides an added incentive because many government processes are no longer ongoing, but have ceased to operate. This temporary cessation of government work provides an opportunity to consider questions like: What should the State be responsible for in society? How should the State accomplish its tasks? What government administrative machinery can best support the accomplishment of these tasks?

48. Recent experience in post-conflict restoration of governance indicates several key areas: national leadership, effective coordination, strong civil society and private sector empowerment, rule of law, culture of cooperation, linkage between government-wide administrative frameworks and management improvement programmes in operational ministries, territorially based development strategies, training of human resources, and building upon modest but consistent success. These elements are essential for effective governance strategies leading to peace, stability, social cohesion and sustainable economic development.

49. Government machinery has an essential and indispensable role in rebuilding war-torn societies, focusing especially on facilitating social communication, political agenda setting, economic development and leading to the re-knitting of the fabrics of socio-economic life. Government administrative machinery can be designed to facilitate transparent communications and cooperation, thereby leading to effective coordination both in mechanisms for development and in a spirit of national reconciliation. Government administrative machinery can also build confidence and credibility through achieving consistent, effective and efficient programmatic successes.

## Notes

[1] Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995 (United Nations publication, Sales No. 96.IV.8, chap. I, resolution 1, annex I.

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# ETHICS, PROFESSIONALISM AND THE IMAGE OF THE PUBLIC SERVICE

Report prepared by the Secretariat*

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# I. INTRODUCTION

1. Public service represents one of the very oldest, most highly prized, most widespread and celebrated values in the history of humankind. In traditional societies, little distinction was made between voluntary service for the good of the community and remunerated work performed on a professional contractual basis. A fusion of the roles of government and governed, direct participation in the affairs of state, and the growth, in this manner, of a political culture and administrative skills were favoured by conditions of relative stability and the presence of a leisured class imbued with a strong commitment to the polity's well-being. This situation, however, was transformed with the emergence of vast multinational kingdoms and empires from China through Persia to Rome.

2. In modern times, the rise of the administrative state, from the eighteenth century onwards, also led to a vast expansion of the public service. It has been accompanied by bureaucratization which, as Max Weber observed, profoundly revolutionized organizational structures and values. Ironically, those values have lately come into conflict with the long cherished claims of democratic citizenship and participative government. Professionalization of the public service has changed the nature of public organizations by implanting deeply the instrumental rationality that has dominated societies around the globe. This dominance, however, has been more pronounced in the Western countries than in developing nations.

3. Rationalism and positivism have been part of Western cultures for almost 200 years, whereas normative values are still dominant in most developing countries. However, globalization and cultural convergence, on the one hand, and counter-pressures from below against this rampant instrumental rationality, on the other, are changing this situation. The result has been a clash of major values underlying the administrative and political systems around the world.

4. The rise of mixed economies after the Second World War and decolonization gave a boost to the administrative state. Eventually, however, the fall of the Union of Soviet Socialist Republics resulted in a reconsideration of societal, organizational, and economic principles. As the dominant economic system, capitalism appears to have risen to the top, with the United States and some European States as leaders in this new global environment.

5. Capitalist ideology advances the supremacy of the marketplace, together with the benefits of private enterprise and administrative rationality. However, this new trend has been accompanied by pressures from below from citizens who seek empowerment, smaller government, less governmental intrusion into their private lives and democratization of the policy process. The result has been a clash of citizenship values, on the one hand, and the professional administrative values, on the other. Consequently, public service has been badly damaged in terms of institutional capacity, quality of performance, and public image. Resolving this conflict requires the reconciliation of administrative and citizenship ethics.

## II. THE CRISIS IN THE PUBLIC SERVICE IMAGE

6. It is through integration of these conflicting values that the image of the public service can be revived and enhanced. This paper addresses this and other issues for discussion and policy recommendations. Firstly, a number of factors contributing to the decline of the image of the public service are discussed. Then, several perspectives are presented on administrative ethics. This is followed by a discussion of professionalization in the public service and its implications for public service ethics. Subsequently, a discussion of public administrators as guardians of the public trust is presented. Finally, some guiding ethical principles are outlined, followed by an annex with some ethical issues, whose policy implications could be explored and debated. Many factors have contributed to the rise and expansion of the modern administrative state. Over the years, the role of government has grown dramatically. It soon became the engine of national growth, of private sector development, of the provision of public services, and of the protection of individual rights. Professionalization of the public service has been a common feature of both capitalism and socialism.

7. In capitalist countries, mixed economies arose, blurring the boundaries between the two sectors. The values of the public and private sectors also merged to an extent. Still, public service values and commitment remained strong. These professional administrative values displaced those of the earlier political machine systems, which prevailed in many countries during the nineteenth and early twentieth centuries - thus the professionalization of the civil service which followed, resulted in the separation of politics and administration. The politics-administration dichotomy was a dominant philosophy of the administrative state and of the public service. However, despite the improvements in public service delivery which it provided, it also introduced another dilemma in the form of the dichotomy of politics and administration.

8. The dichotomy put professional administrators in a position of vulnerability, enjoining them to abstain from public policy making and not to engage in activities in the domain of politics, however defined. The democratic values of responsiveness, responsibility and accountability became major political values, which were perceived to be in conflict with the administrative values of professionalism, efficiency and effectiveness. Consequently, the administrative state and the public service came under attack from an array of crusaders for democracy. These anti-public service, anti-bureaucracy and anti-government forces have had ideological, political, social, and economic underpinnings, whose exploration goes beyond the limitations of this paper. A severe decline of the public service followed in terms both of institutional capacity and the image it presented in the United States and around the world. The result has been a major crisis of public service professionalism.

## III. THE ADMINISTRATIVE ETHICS MOVEMENT

9. Rampant political jobbery and economic corruption have provided much of the impetus for the development of modern public administration and the professionalization of the civil service. Thus, in the United States of America, the 1883 Civil Service Reform Act "actually was the full equivalent of

a constitutional amendment, even though there was no way to describe it as such". And as Frederickson put it recently, "the contemporary government ethics movement appears to have essentially the same purpose as the reform movement a century ago - to reduce government corruption". Never before have ethics been so important. The significance of ethics in governance and the public service is high for several reasons. First, the level of corruption in government has increased dramatically. Taking bribes by public officials - mostly political - is a pervasive phenomenon around the world, and the business sector is a major conduit for this practice. Small and big "scams" have resulted in the conviction of numerous officials. Corruption has been a pervasive and enduring public issue. Second, increasingly, "people do not equivocate on government corruption. It is wrong and they are against it." Third, government corruption is a policy issue with strong "carrying capacity". It has reached saturation level. Fourth, matters of government ethics are being increasingly institutionalized. Fifth, ethics cut across all policy fields: business, medical, social service, insurance, social security, the military, economic, scientific etc.

10. The growing global concern for administrative ethics has been manifested in at least three areas: academia, legislation and institution-building. Judicial aspects have also been reflected in cases reaching the courts and the decisions rendered. Considerable research and writing on administrative ethics have appeared in the form of scholarly books published during the past 20 years.

11. Institutional and legislative concerns for ethics have been expressed in many organizational and legal measures adopted to combat corruption, safeguard the integrity of public service and promote professional conduct based on sound ethical grounds. Almost all public organizations and associations of public service appear to have adopted codes of ethics. Institutional arrangements, such as offices to prevent or control unethical conduct, appear everywhere. It is a global phenomenon.

12. Eight major themes and perspectives appear to have emerged in recent publications on administrative ethics and accountability. They include:

(a) Citizenship and democratic theory, with an emphasis on the renewal of civic virtue. This theme views public servants as virtuous citizens and as guardians of community interests. Virtuous citizenship is important for democratic governance and administration. Loyalty to democratic values, responsiveness, responsibility and moral conduct are virtues of democratic citizenship. Civility, tolerance, respect for equality and for citizens' rights, as well as obligations are key values in democratic citizenship.

(b) Virtue ethics, with an emphasis on good character in public service and administration. It is an extension of the first. Character is the focus of study and practice in administrative ethics: the most critical problem is the scarcity of men and women of good character in positions of leadership - whether public, private, educational, or religious. For too long, the management orthodoxy has taken as axiomatic the proposition that good systems will produce good people. However, it is clear that a just society depends more on the moral trustworthiness of its citizens and leaders than upon structures and systems. Costly ethical failures of organizational leaders have caused irreparable damage

to public trust and to societal interests. As a personal attribute, virtue is a character trait that inclines us towards ethical conduct. Ethics has ancient origins. For Aristotle, moral virtue comes about as a result of habit, whence its name ethike is a derivative of ethos (habit). From this it also follows that none of the moral virtues arise in us by nature. Therefore, to Aristotle and all those following this perspective, administrative ethics are cognitive and learned values. But the social environment in which public administrators operate affects the cognitive values acquired or learned. Contemporary writers commonly associate the quest for excellence with the practice of virtue. This perspective has significant implications for modern public administration in that virtuous administrators can be trained and developed through ethical precept for public service. Therefore, unethical behaviour may be considered as a form of corruption, for corruption is the absence of civic virtue.

(c) Foundation thought and constitutional tradition, insisting on the public officials' ethical obligation to uphold such major values enshrined in constitutions as freedom, liberty, equality, due process, justice, etc. This perspective also values efficiency in the measure that the ethical and political values of democracy are upheld. It is as central to the theme of public interest as procedural versus substantive justice and seeks to maximize the salutary influence of personal interest and to control the adverse effects of popular passions.

(d) Ethics as education, with an emphasis on the study of ethics in the public administration curriculum and training public servants for an honourable career. This perspective has a grounding on the educational development of public administrators and highlights community service. Ethics is education in that it transforms officials by moulding their attitudes, behaviour and perception of others. It is through self-development that social administrative ethics are also promoted. Ethics as education is both external learning and internalization of moral values.

(e) The organizational context of ethics, with a focus on efficiency and effectiveness, but also on the normative values of fairness, justice, and moral conduct: organizations and their members must not be moral only where it is efficient to do so; they must be efficient only where it is moral to do so. Efficiency at any cost is not acceptable, but efficiency with moral and ethical conduct is imperative. Organizational structures reflect value choices and ethical commitments made by those who design organizations. They protect such ethical values as fairness, justice, honesty, accountability, and respect for rights, but may also impede them through built-in bureau pathologies. Structures and procedures may be viewed as mechanisms for pursuing ethical outcomes. Procedural justice is considered as a way to deal with the arbitrariness, tyranny, and injustice that may arise in the exercise of administrative discretion. Thus, discretion should be checked by means of judicial and other institutions. In public administration, a clash between ethics and organizational culture may occur. Critics argue that bureaucratic culture corrupts society through lack of human-centred norms. The manipulative role of power holders degenerates into a system of totalitarianism, in which organizational ethical values are compromised.

(f) Philosophical theory and perspectives, with a focus on rejecting positivism and post-positivist perspectives in public administration. Rejecting the neutrality argument, this perspective highlights the public servants' active role in upholding and promoting agreed-upon values of the community as public interests. Administrative ethics, therefore, identify professionalism with active moral conduct. The role of professionalism and of professional administrators is emphasized in administrative ethics.

(g) Ethics as consequence or utilitarianism, with a focus on the outcome of conduct and behaviour in public administration. In a major break with classical thought, Machiavelli argued (The Prince) that acts should be judged as good or bad depending on their consequences, rather than on their intentions or the characteristics of their actors. Following this line of argument, John Stuart Mill (1806-1873) wrote (Utilitarianism) that "All action is for the sake of some end, and rules of action it seems natural to pursue must take their whole character and colour from the end to which they are subservient. To be good, actions must be means to something admitted to be good, ... such as health or pleasure."

(h) Ethics as principle, with an emphasis on categorical imperatives in which absolute right is pursued. Immanuel Kant (1724-1804) approached the question of ethics from a very different angle than Machiavelli or Mill. Kant outlines his categorical imperative as the ultimate basis for ethical action or inaction.

## IV. PROFESSIONALISM AND ADMINISTRATIVE ETHICS

13. From these theoretical perspectives, one can discern implications for modern public administration in which rationality-based organizational and normative values converge with virtuous citizenship.

14. Max Weber once observed that the modern state administration was bureaucratized everywhere. Both capitalist and socialist States and their administrative systems have gone through bureaucratization, and professionalization. Professionalization of public administration has been characterized by an adherence to the merit system, to task specialization, to systems of checks and balances, and to the organizational values of efficiency, economy and effectiveness achieved through political neutrality. It has also meant adherence to professional standards, values, criteria and ethics rather than political or other criteria.

15. Thus, generally speaking, the professionalization of public administration and the administrative state present two contrasting perspectives: professionalization introduces task performance, efficiency, effectiveness, objectivity, integrity, identity and cohesion. It also serves as a bulwark against political corruption and other substandard behaviours in the public service. Its value as a corrective has been recognized. However, the clash between professional civil service values, on the one hand, and the political values of responsiveness, responsibility, and accountability to citizens, on the other, has been a major source of tension between professional career bureaucrats and politicians, elected and appointed. The conflict between

professional and political values has captured much of the recent literature in public administration and political science around the globe. Are they really contradictory or complementary?

16. Two opposing perspectives prevail on this question. The one against professional discretion and participation in policy-making asserts that such participation is undemocratic because non-elected, appointed bureaucrats cannot be held accountable to members of the electorate. This perspective also contends that democratic values of responsiveness and responsibility are lost as professional bureaucrats play a part in policy decisions. It is increasingly difficult not to hold professional experts accountable, since only they understand the minutiae of the knowledge they possess. The counter-argument for professional values asserts that professional standards serve the broad public interest. Therefore, they are responsive to societal needs. Accountability is achieved through organizational, professional and personal mechanisms of checks and balances. In addition, legislative, judicial and other means of oversight are exercised over them.

17. A third theoretical approach consists in combining professional and democratic values in the public service. Therefore, to be a sound administrator it is essential to perform with high ethical values and to promote efficiency and effectiveness, but also responsiveness, responsibility and fairness or justice. Discretion must be exercised under multiple systems of checks and balances, but also with personal and professional integrity and prudence (practical wisdom). Therefore, to be a professional is not enough. One must also be a responsible and responsive administrator. This requires ethical education and training at all levels.

18. Professional public administrators may be seen as the guardians of the administrative state. They provide stability and continuity in governance, even in the midst of paralyzing political crises, upheavals and revolutions. It is an established fact that bureaucracy has survived political changes for more than three millennia. Public administrators play an active role in the formulation of public policies. But their impact on the pace, style, tone and quality of policy implementation is immense. They may be viewed as guardians of the public trust.

19. However, to many concerned citizens, experts and political authorities around the world, this assertion also raises a very fundamental question. Who then guards the guardians? This is also a central issue in public management. As Victor Thompson noted some time ago, the increasing specialization of subordinate employees has created a severe imbalance between formal hierarchical authority and the responsibility of high-level administrative elites, on the one hand, and their actual capacity to manage, on the other.

20. Accountability in the public service is very important because there are many aspects of administrative work that are open to corruption and subversion of the public interest. At the same time, there are aspects of professionalism that make it difficult to attain an acceptable level of accountability. The difficulty in attaining administrative accountability makes administrative ethics particularly important. Ethics is a form of self-discipline, an inner check on the conduct of public servants. Accountability is also an

organizational and political concern. It touches on issues of liability, as well as ethical matters. To deal with these two issues of worldwide concern, it is worth considering the question why some public administrators abuse their trust and act in ways considered to be contrary to the public interest and in violation of the public trust.

## V. THE GUARDIANS OF THE PUBLIC TRUST

21. Generally speaking, there are three categories of factors that impel public administrators to violate the public trust. These are misrepresentation of the public interest, corruption, and subversion.

### A. Misrepresentation of the public interest

22. Several factors at work shape public servants' concepts of the public interest. Most of the high-ranking administrative appointees are drawn disproportionately from upper and upper middle class backgrounds. This makes the bureaucracy socially unrepresentative. The social and economic class basis of the civil service is critical because it colours perceptions of how people live, what their problems are and what they want and need.

23. Excessive specialization is yet another source of misrepresentation of the public interest. Professional public administrators - like those who perform specialized functions - may develop a narrow outlook concerning the public interest, by either exaggerating the importance of what they do or by downgrading the work of others. Professional lawyers, medical doctors and scientists are example of this. Critics have even argued that bureaucracies and bureaucrats tend to develop bureau ideologies that frequently distort their view of public needs. This is because all officials exhibit relatively strong loyalty to the organization controlling their job security, prospects and promotion.

24. Lastly, misrepresentation may flow from close relationships of public organizations with particular clientele: health, agriculture, the environment, and urban development are cases in point. Public administrators working in such agencies may mistakenly consider the interest groups with which tney deal to be truly representative of the population as a whole. The concept of "iron triangles" refers to a phenomenon that has become pervasive in the United States and many other nations. Among the most powerful iron triangles found in the realm of public policy is the military-industrial complex (MIC). In a typical iron triangle, an informal alliance is formed among interest groups, administrative/bureaucratic elites, and legislative committee members (political elites). It functions outside the formal structure and process of the bureaucracy and government, with no records taken or references made. The business, bureaucratic and political elites dominate the policy process, producing tunnel vision and a corresponding lack of transparency and accountability in the transaction of public business.

## B. Corruption

25. Corruption may be viewed as betrayal of the public trust, and is a worldwide phenomenon. It has contributed to the current crisis in the public service image. It is beyond the scope of this paper to discuss its many dimensions, consequences, and causes. Suffice it to say that definitions of corruption vary from culture to culture. What is legal and legitimate in the United States may be considered corrupt in other cultures. There are numerous forms of corruption, including bribery and kickbacks, which have become institutionalized in some political regimes. Other forms of corruption have become so pervasive as to be virtually accepted as normal, including nepotism, favouritism, patronage and the selling or exchange of office for personal gain. Corruption tarnishes the image of the public service and deligitimizes the role of government; in all its forms it violates the public trust and civilized values. The pervasiveness of corruption in the public service makes it imperative to develop ways to guard the guardians.

## C. Subversion

26. Subversion is another reason why public administrators need to be watched and controlled. Public administrators may engage in subversive activities for a variety of reasons: extreme discontent or fear of job loss, resort to clandestine activities in cooperation with anti-government forces or organizations, corruption, and so on.

27. Important though it is, the task of guarding the guardians presents a number of problems:

(a) Special expertise and information: public administrators are often experts at what they do. The expertise and specialized information they possess puts them in an advantageous position, which is not matched by outsiders, specially common citizens, but even politicians. This technical, specialized expertise and information are the bases of administrative and organizational decisions, and often beyond the ability of outsiders and those charged with oversight to fathom.

(b) Full-time status: simply stated, the full-time status of public administrators makes it difficult for outsiders, who have many other things to do, to hold them accountable.

(c) Job security and other protections: most public administrators enjoy job security, and any adverse organizational action against them is subject to due process, civil service protection procedures and so on. Discipline and dismissals are difficult, though not impossible. Many small and petty administrative infractions can over time lead to a significant adverse impact on public service image and credibility, as well as on organizational productivity, performance, and service quality.

(d) The law of counter-control: according to Anthony Downs, it takes a bureaucracy to control bureaucracy. The "law of counter-control" has several manifestations in different parts of the world. It leads to duplication, waste

and the proliferation of bureaucratic organizations for control purposes, a practice which obscures the cardinal purpose of public service, which is to serve the citizens and to protect their interest.

(e) Coordination problems: such problems make accountability difficult for many reasons. For example, separation of powers in the United States between the Executive, Congress, and Judiciary has been a source of difficulties in securing accountability. Analogous examples may be found elsewhere in the world. It is often difficult to hold an agency or administrator accountable, when many organizations and officials are involved in implementation without proper coordination and control.

(f) Fragmentation of organizational functions and structures: this is another obstacle in securing administrative accountability. Fragmentation and overlapping functions and responsibilities cause confusion. Accountability is lost because no one seems to be responsible, where everyone is responsible. Blames are shifted from one source to another.

(g) The large size and scope of public administration: almost everywhere in the world, the size, missions and scope of public administration are extremely broad. Often the structures, rules, procedures and the number of employees employed complicates the task of holding public administrators accountable.

28. Yet, despite these major obstacles, a number of means have been used to secure accountability in public service and thus to guard the guardians. Codes of professional ethics and education constitute one broad category. A complementary approach encompasses political, legal, cultural, and other institutional arrangements, which are explored below.

## VI. ACHIEVING ACCOUNTABILITY

29. Administrative accountability in the public service can be achieved through a number of formal means.

### A. Managerial/organizational

30. This approach is applied worldwide and is a universal means of achieving accountability in all kinds of organizations. It has several major tenets or values that cut across all organizations and the prevailing culture in societies. These universal organizational values are efficiency, economy, effectiveness, and control. The first three are values of instrumental rationality, while the fourth is both a normative and a rational imperative of organizational accountability. Organizational unity is important for maximization of these values, and several means are used to secure it.

31. Firstly, hierarchy, authority and responsibility need to be clearly defined and assigned. Overlapping functions should be reduced; lines of hierarchical authority should be clear and comprehensive. Plural agency heads/leadership tend to divide subordinates' loyalties and to obscure responsibility.

Subordination also is necessary for organizational unity, effectiveness, and accountability. Insubordination is seldom tolerated and is punishable by dismissal. Lastly, the span of control is an effective means of organizational accountability. Essentially a part of the orthodox, classical management and organization theory, a narrow span of control has been viewed as an important principle of accountability.

32. Organizational loyalty is expected of all members and is assured in many ways: these include socialization into the organizational milieu; occupational specialization makes it difficult for employees to find equivalent positions elsewhere; and dependence on organizations, through pension schemes or indeed conflict-of-interest regulations close the revolving door. Such countries as the United States have legislative regulations that tend to be comprehensive on these matters. Formal disciplinary systems enforce accountability and subordination. They are designed to identify the types of proper conduct and to prevent abuse of agency authority and property.

33. Disciplinary systems have often been criticized as largely ineffective. Public accountability should seek to enforce much higher standards of behaviour, an approach that is professional and legal or constitutional in nature. Audits are strong deterrents to corruption or other abuses of public trust. Audits can also be internal or external, and it may be desirable to employ external as well as internal audits. In many public organizations, both are required.

## B. Political means

34. The political approach takes a different road in stressing the need to develop an external means of accountability in public administration. This is frequently done through political control of personnel systems by using patronage appointments. However, other important means are also applied effectively and are familiar to most systems:

(a) Legislative oversight, which can be achieved by means of legislative requirement for the ratification of the appointment of agency heads, legislative investigations and auditing;

(b) Budgetary control, which means the power of the purse, an extremely important legislative check on executive power;

(c) Rotation in office in order to reduce the risk of misrepresentation of public interest, amassment of power or empire-building by key administrators. This is an ancient personnel practice going back to Persia and Rome. Its utility is recognized for a number of reasons around the world. The 1978 Civil Service Reform Act of the United States created the Senior Executive Service to enable the federal civil servants to move from one agency to another. Political executives are routinely rotated from office to office, or out of office, when a new political boss arrives;

(d) Representation and public participation as a means of broadening the composition of public service and encouraging diversity, which may bring

administrative values closer to the general public, thus reflecting citizens' perspectives and preferences;

(e) Whistleblowing is a widely known practice, with its benefits and costs. The use of hot lines and other confidential channels may be safer for public administrators, protecting them from reprisals. Leaks to the press, exposure to the public and the media, reporting to higher authority, resignation in protest, and exposure are some means of whistleblowing. Some countries have passed legislation protecting whistleblowers;

(f) Sunshine laws, which require open public dealings as important means of securing accountability and proper conduct of public officials. Today, most American states and local governments have adopted sunshine laws;

(g) Conflict of interest, which is similar to the organizational and managerial approach.

## C. Legal approach

35. This is a judicial approach to administrative accountability. Administrative liability is one issue; another is a strong and personally internalized incentive to protect the constitutional rights of individual citizens.

## D. Cultural approach

36. This is another means of achieving accountability in public service. It requires inclusion of significant ethical components in the educational curricula for children and adults. Ethical education can be carried out through religious and secular institutions. Religious institutions and values can be used as major guiding principles in public service conduct. For example, in Islam, like in other religions, there is a high value attached to being a public servant and to proper behaviour in personal and public life.

## E. Ethics institutional approach

37. A number of institutions can be created and empowered to promote and enforce ethical behaviour and accountability. For example, programmes for whistleblowing, ethics hot lines, ethics boards and commissions, ethics education programmes for elected, politically appointed, and administrative officials, agency ethics officers, financial and conflict-of-interest disclosure systems, and professional codes of ethics are typically found in modern governments. Australia, Canada, the United States of America, the United Kingdom of Great Britain and Northern Ireland, the Islamic Republic of Iran, India and many developing countries have most or all of these institutions in place.

## VII. GUIDING PRINCIPLES IN PUBLIC SERVICE ETHICS

38. Administrative ethics has been enhanced by professionalization in the administrative state. While public service ethics and accountability remain major concerns, the incidence of corruption and unethical behaviour is mostly found to be on the political side of the public service. Political executives are often at the apex of public organizations and, as elites, they tend to be key players in most scandals. Professionalism in public administration has helped in curbing political corruption around the world.

39. Acting as guardians of the public trust, professional administrators are in a central position to revive and enhance the image of the public service. This is a major challenge, which entails a conscious effort of advocacy and enforcement. The following paragraphs present a list of principles that can guide public administrators in promoting the above goals. These principles or precepts are identified as dos and don'ts.

40. Ethical education. Ethical education is a must and should be part of all educational systems at all levels. However, education and training in administrative ethics are most essential for public service careers anywhere in the world. They must include both personal and administrative ethics. Civic virtues, virtuous citizenship, respect for others, protection of individual rights and other ethical values should be internalized by public servants. Advice to top executives should also include the following: set the example and tone for the entire organization by emphasizing education and training in ethics, by thinking and behaving ethically. Advice to public employees: educate yourself with ethical and moral principles and act ethically; do not compromise on principles; disobey unconstitutional, immoral, illegal, and unethical orders and expose them through the appropriate channels; find appropriate ways to do it.

41. Preservation of professional and personal integrity. Professional values should prevail over organizational or personal orders of superiors deemed questionable. Responsible professionalism is an essential component of administrative behaviour. This requires self-regulation, knowledge, self-control, a degree of autonomy and personal independence, subordination of private interests to the public interest and public trust.

42. Prudence. The exercise of prudence, which means practical wisdom, was emphasized by two great Persian thinkers of the Middle Ages - Ibn-e-Cina and Nizam-ul-Mulk. Every society has its own thinkers of this calibre. Prudence requires self-control, discretionary decisions based on knowledge, expertise and ethical judgement.

43. Public spirit. Private interests should be subordinate to public, community interests. In making decisions or acting as an administrator, think of the public trust, and citizens' interests first, then think of yourself. Develop civic virtue, act virtuously and promote virtuous citizenship by being a virtuous citizen and acting as a virtuous administrator.

44. Avoidance of all problems causing public service crises. Some of these problems are beyond one's control as an administrator, but those values and

factors that deter public service corruption and compromise should be adhered to.

45. Be a responsible administrator. Act with restrain, discretion and freedom that is also responsibility. Be an example to others. If you cannot continue to perform your duties properly, resign and expose those who make it impossible for you to perform ethically and professionally.

46. Promotion of the common good. Devote your time, expertise, and knowledge to building community values and defending the rights of the poor, as well as of the affluent. It is the public interest and trust that you must serve at all times with integrity.

47. Be competent and fair. Competence comes with training, skills development and knowledge. It is extremely important to apply competence with fairness, equity, and justice in administrative positions. Efficiency and effectiveness are important organizational and managerial values, but they must be blended with fairness, equity and justice. It is this blend of ethical and professional values that makes professional ethics in public administration possible and desirable.

48. Follow and enforce the professional code of ethics. Codes of ethics in public administration are written and unwritten collections or systems of laws, rules, regulations, and norms that guide public service conduct. They are statements of ideals, canons of action consonant with those ideals and binding means of enforcing behaviour within the boundaries established by the code. Opponents of codes of ethics argue that one should resist moralizing everything, that rigid codification of right or wrong is dysfunctional, and that bureaucratic neutrality considers it immoral to pass moral judgements on public organizations. Proponents of codes of ethics cite the objectivity and the positive value added through code of ethics enforcement. Some codes of ethics carry sanctions for unethical behaviours while others are more aspirational or guides to public servants.

49. Establish and affirm professional identity as a public servant, as a professional, as a keeper of public trust and as an ethical person. Resist all forms of corruption.

50. Avoid unethical dilemmas as much as possible but, if caught in the middle, seek advice and exercise prudence. Most ethical dilemmas can be handled with prudence.

51. Act morally and ethically with a sound character and responsible judgement. Value and promote the image of the public service.

52. Combat corruption at any level and any time. Establish and use commissions of inquiry; wage war on indiscipline, and show moral leadership. Also use scholarly research and the confidential approaches mentioned earlier.

53. Develop and internalize a sense of total quality management (TQM): promote the idea of doing things right the first time and prevent the costly error of duplicating or repeating poor quality work. Do not cheat on your work,

internalize work ethics, and develop a sense of motivation for public interest and self-actualization.

54. View citizens as valued human beings and as community members, not merely as consumers or customers in the marketplace. Discourage an overly biased corporate ideology, which tends to promote corruption and unethical behaviour. Markets are not alternatives to public service. Rather, sound governance, public service and responsible citizenship are sine qua non prerequisites of a business-friendly environment, the smooth operation of markets, effective democracy and social peace.

ANNEX

Issues in administrative ethics

Public administrators face significant ethical issues on a daily basis. Some of these issues are strictly organizational, while others are broader societal issues concerning ethics and accountability. Both categories need to be reviewed by public administrators using ethical principles as their guide. The following is a list intended to generate discussion at the meeting:

Recruitment and selection
Employee drug screening and ethics
Alcoholism
Disciplinary action/termination
Salaries, wages and benefits packages
Discrimination on any basis
Downsizing
Who should go first under cutback programmes?
Sexual harassment and sexual orientation in the workplace
Workforce diversity
The right to strike
Political activities of public employees
Organizational changes affecting employees
Employee fitness programmes
Censorship
Private use of employee time and expertise
Patronage vs. merit systems
Whistleblowing
Future employability of employees
Private conduct vs. public conduct
Conflicts between political and career appointees
Covering for the boss
Hierarchical orders
Conflict of interests
Bribery and small scams
Influence wielding
Nepotism and patronage
Ethics of privatization
Morale and productivity
Politicization of the civil service
Merit system erosion
Use of public property for private use
Race, colour, convictions and gender
Fairness, equity, justice, efficiency and effectiveness

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# POLITICAL, SOCIAL AND ECONOMIC REALITIES IN DEVELOPING COUNTRIES AND IN COUNTRIES WITH ECONOMIES IN TRANSITION

Report prepared by the Secretariat

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## INTRODUCTION

1. In the light of the international community's increasing awareness of slow economic growth in many developing countries and countries in transition from a centrally planned economy to a free-market economy (transitional economy countries) and of the related negative global implications, it is essential that the United Nations should promote and implement action-oriented responses aimed at helping those countries to reduce poverty and achieve sustainable economic growth. In the long run, the eradication of poverty throughout the world will serve the interests of economically developed countries as well as those of other countries.

2. Approximately one third of the total population of developing countries - over 1 billion people - live in poverty according to the yardstick currently applied, namely annual per capita consumption of less than $370. They are the "forgotten people" in the development process, having received little or no benefits from economic growth over the past decades. The poor are unable to achieve a minimum level of living and cannot afford adequate food, clothing or housing. Their life expectancies are low, the death rates of their children are high and about 10 million children receive absolutely no basic education. In fact, some 15 million children under 5 years of age die annually in circumstances that would not normally result in death in economically developed countries.

3. Generally speaking, poverty is more acute in rural areas, although urban poverty has been on the rise. The poor tend to live on marginal rural lands or in shanty towns on the outskirts of cities. The rural poor have little or nor access to government services, technical assistance or sources of credit. The rural poor include large numbers of the landless as well as tenants or sharecroppers with precarious land tenure arrangements. This group of poor has greatly expanded in recent decades; it forms the largest group of potential migrants to urban areas.

4. The most effective means of reducing poverty is the adoption of national development strategies, including sound macroeconomic and structural policies, which encourage sustainable growth that increases income-earning opportunities for the poor and develop the human resources of the poor, particularly through broad access to education, health and family planning services. In a working paper entitled "Approach to overcoming poverty through self-help and target - group - oriented financing instruments" prepared for the Ministry for Economic Cooperation of the Federal Republic of Germany in 1994, it was observed that "the poor in the third world do help themselves:

"- they achieve individually and as groups, a considerable output in terms of savings and labour;

"- they may become creditworthy, obtain, put to good use and repay credit: the poorest people have proved to be particularly reliable clients of banks;

"- they work productively in many different ways and are able to increase their productivity;

"- they form groups, often on a voluntary basis and informally, which arrange their activities: neighbourhood help, labour, amount, purpose and sequence of credits, group security, settlement of conflicts;

"- they contribute to the balanced development of all members of the group without curbing the dynamism of the individual;

"- all these activities help to form the nucleus and points of crystallization for democratic processes of development."

5. The use of public financial resources to improve the health and education of the poor has proved to be an investment that benefits the economy as a whole, for a healthy, well-educated workforce means higher productivity and more rapid economic growth. However, welfare programmes which include no measures aimed at bringing about corresponding increases in the productivity of the recipients are bound to be short-lived and even counterproductive.

6. Generally speaking, the capitalist revolution (free-market reforms and well-conceived and prudently implemented privatization in the post cold war period) has increased foreign investment, streamlined the public sector and reduced inflation, bringing about a significant level of stability and prosperity. However, in countries where objectively justifiable reforms have been marred by cronyism and nepotism and undertaken without a concomitant commitment to justice, solid money, competitive markets and democracy, the result has been unbridled mercantilism, with the vast majority of the population being denied the opportunities and benefits of economic growth. In some cases, populist opposition has emerged in protest against dishonestly implemented privatizations which have simply replaced public monopolies with private monopolies. The inadequacies of the self-offs are being used by enemies of free-market reforms, who claim that such reforms are simply a subterfuge for giving more advantages to the rich while neglecting the poor. Improperly implemented free-market reforms have also sometimes given rise to populist opposition to structural adjustments backed by the International Monetary Fund (IMF), which, while often necessary, are perceived as being harmful to the poor.

7. It is against this background that developing and transitional economy countries must grapple with the problem of maximizing the mobilization of financial resources from both domestic and foreign sources while at the same time ensuring that those resources are used in the most efficient and productive way so as to benefit all classes of the population, including the poor, and that public financial operations are reliably accounted for so as to inspire confidence among both citizens and foreign donors and investors.

8. To that end, the Governments of developing and transitional economy countries, with the cooperation of the international community, in particular the United Nations, should seek to strengthen their capacity in the following areas:

I. Enhanced resource mobilization:

A. Enhanced mobilization of domestic financial resources:

1. Enhanced mobilization of government revenue;

2. Enhanced mobilization of private (business and personal) savings;

B. Enhanced mobilizations of private foreign investment;

II. Improved government financial management (public expenditure planning, budgeting, performance evaluation and accountability);

III. Public enterprise reform and private enterprise development:

A. Public enterprise reform;

B. Private enterprise development.

## I. ENHANCED RESOURCE MOBILIZATION

9. Although governmentalism is not the solution, inducing economic and social progress within the free market system, that is through private persuasion, depends to a very significant extent on the efforts of Governments. Government policies should reflect a sustained commitment to improving the lot of the poor. International factors - notably world trade, foreign direct investment, foreign loans and foreign aid - can play an important part in a strategy for reducing poverty. Foreign aid can provide investment capital, foreign technology and skilled personnel. It has sometimes been an effective instrument for alleviating poverty, but it has not always fulfilled its potential, for various reasons. Bilateral donors have many different motives (political, strategic, commercial and humanitarian), the reduction of poverty usually being far from the most important. Furthermore, a number of recipient countries seem to have fallen into what has been referred to as "aid dependency" and many poverty-oriented projects funded by aid have failed to benefit the poor. A solid case for greater amounts of aid could, however, be made if more recipient countries were to concentrate seriously on combating poverty and if donors profited from the lessons of experience. Projection by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) have indicated that aid could increase to $108 billion or $144 billion by the year 2000 if aid/GNP ratios of 0.5 or 0.7 per cent respectively were attained by those donors which are currently below these ratios while donors above them maintain their current levels. However, foreign aid could increase to only $64 billion in the year 2000 if it grows at 2 per cent a year. Foreign aid fosters a prospering and peaceful international environment. When properly used, it is a catalyst for development.

10. Despite the encouraging trend in the international flow of foreign direct investment, net resource flows, particularly to low-income countries and severely indebted lower-middle-income countries, have remained stagnant or declined, highlighting the need for the international community to continue

mobilizing adequate financing in support of developing countries' efforts to move towards external viability combined with sustainable growth. International efforts in the form of increased foreign aid and open trade policies can support and complement the actions of recipient countries, but it is the Governments of the latter countries which bear the primary responsibility for their own economic and social progress.

11. Revitalizing the vision of development requires expanded capital formation through enhanced efforts to mobilize financial resources. This means intensified efforts to mobilize an increased volume of domestic financial resources and attain more private foreign capital.

## A. Enhanced mobilization of domestic financial resources

12. No matter how great the contribution of foreign capital, it must essentially serve as a supplement to domestic financial resources if a country is to embark on a self-sustaining development process. Thus the investment requirements of a country have to be met increasingly from the savings of the three major sectors of its national economy: (a) the government sector, whose savings are represented by the excess of tax revenue (including customs duties) and non-tax resources (i.e. grants, property income, sales proceeds of public assets, fines and other government receipts) over current government expenditures; (b) the business sector, whether corporate or unincorporated, which derives its savings from the retained profits of enterprises; and (c) the household sector, which derives its savings from salaries, wages and professional fees in the case of individuals and from profits in the case of family businesses. The savings of the household sector include the savings of property owners or rentiers who do not operate business enterprises and the strictly personal savings of individual households. In most, if not all countries, the household sector currently accounts for the greater part of savings.

### 1. Enhanced mobilization of government revenue

13. Governments have a broad responsibility for providing services of vital importance for development, including notably education, health, water and sewerage, roads, public transport and essential housing. Certain elements of government current expenditures, notably for such purposes as education and health, are as important to development as capital expenditures on roads and buildings. In addition, the Government may either engage directly in productive activity, if the private sector is unwilling to fill any gap that may exist in the provision of essential services or seek to channel resources to the private sector for the promotion or expansion of enterprises. The ability of the Government to provide necessary services depends on the amount of tax revenue that it is in a position to collect. Failure to raise adequate revenue tends to reduce the amount of services that can be provided or to cause inflationary pressures, which in turn, by generating additional import demand, spill over to the external sector intensifying pressures on the balance of payments.

14. A critical bottleneck in the process of poverty eradication is weak fiscal discipline, which in an unstable economic environment may give rise to large fiscal imbalances that are financed through inflation. Many countries run fiscal deficits to finance their expenditures because their tax bases are too limited to allow a high tax burden. Even when broader tax bases are available, tax administrations are too inefficient to collect the taxes legally due and political realities often make it difficult to increase the tax burden. Owing to the lack of developed capital markets and the non-availability of external borrowing, fiscal deficits are often financed wholly or partly by central banks, that is, through money creation, which increases the general price level, thus reducing the real value of the monetary unit. Greater efficiency in the collection of taxes can reduce deficit financing and the inflationary process. High inflation has critical allocative and distributional implications that impede growth, inter alia by encouraging capital flight.

15. Fiscal policy plays a major role in promoting and sustaining stabilization and growth, given the close interdependence between fiscal, monetary and external sector policies. Specific fiscal instruments affect savings, capital flight, foreign investment and so on.

16. Tax evasion and avoidance at both the national and international levels have serious implications for fiscal policy. They violate the principle of fiscal equity and undermine the concept of voluntary compliance with tax laws. They can greatly diminish the value of codified incentives and thereby affect allocative behaviour to thwart redistributional programmes, create artificial biases in macroeconomic indicators and increase the tax burden when tax rates must be increased in order to offset the revenue losses incurred, thereby imposing an unfair burden on taxpayers who cannot shift their tax liabilities. The greater the extent of tax evasion and avoidance, the more difficult it is to finance government expenditure without inflation or in other words to increase tax revenue adequately, with the result that the excess of expenditure over taxation is positively correlated with the tax burden. Tax paying has, in fact, come to be regarded as unfair, since public expenditure has been increasingly perceived as failing to yield commensurate benefits either to taxpayers personally or to their communities.

17. Tax administrators have adopted various measures to reduce opportunities for tax evasion and avoidance. The scope of these measures varies according to the characteristics of the country concerned, including its legal structure, its political system, its traditions and the psychology of its people. These measures have included reliance on indirect taxes, reliance on declarations and withholding of taxes by third parties, the operation of an efficient system and cross-checking of information, auditing and the unilateral determination of taxable income, the bilateral determination of taxable income (forfeit method) and the use of legislative provision administrative rulings and judicial decisions, as well as the enactment and enforcement of penalties. International tax evasion and avoidance can be combated by the conclusion of bilateral tax treaties providing for mutual assistance and the exchange of information.

18. The proper implementation of the aforementioned measures requires an efficient and effective revenue administration. The need to introduce higher tax rates and/or new taxes can often be reduced or eliminated by strengthening

the revenue administration. Similarly, the result of attempts to generate additional revenue through higher tax rates or more taxes may prove disappointing unless determined and coordinated efforts are made to enhance the efficiency and effectiveness of the revenue administration. The weaker the revenue administration, the more limited the choice of taxes, and unless the administration is capable of enforcing any new taxes, they may not have a significant impact on tax revenue. Efforts to gear a country's tax structure to the capability of the revenue administration can lead to an increase in revenue by reducing tax evasion and avoidance. Revenue administration constraints tend to determine a country's actual tax structure. Revenue administration performance may lead to the amendment of existing tax laws or the adoption of new laws, so as to introduce more broadly based income and consumption taxes, thus reducing dependence on foreign trade taxes.

19. Action aimed at enhancing the efficiency and effectiveness of revenue administrations has focused on such factors as the institutional framework, management, compliance (including registration) assessment, collection, investigation and audit, revenue accounting, information systems and taxpayer education information and assistance. Furthermore, steps have been taken to make taxes easier to administer, thus permitting more effective application of the tax laws with a more economical use of resources. A revenue administration capable of applying the tax laws efficiently and effectively constitutes a major means of securing additional government revenue without raising taxes and/or introducing new taxes, an unpopular course which many Governments would prefer to avoid. As the Roman Emperor Tiberius observed when advised to raise taxes, "a good shepherd shears his sheep, he does not flay them". In a world environment characterized by disillusionment with governmentalism or state interventionism, a revenue administration of high quality will bolster economic restructuring through entrepreneurial development, with positive effects on both the pattern and the rate of growth.

## 2. Enhanced mobilization of private (business and personal) savings

20. In the business sector, savings are an essential component of successful business operations. Business profits furnish by far the most readily available source of financing for capital expenditure, and this is especially so in the developing countries, where highly developed capital markets do not generally exist to permit external financing. Business enterprises, both corporate and unincorporate, tend to save and invest a large proportion of their savings - a proportion which is invariably much higher than the corresponding share of wage and salary income savings. Thus, the higher the share of business profits in total income, the larger will the aggregate savings ratio tend to be.

21. Personal savings out of wages and salary incomes largely represent the postponement of consumption, more importantly from the working age to the retirement age. To the extent that the retirement motive predominates, the net contributions of this source will depend on the excess of the income earned by the current generation of working age over the income earned by the generation currently in retirement. It will, therefore, depend on the rate of growth of

real incomes, and particularly on the rate of growth of the number of wage and salary earners and on earnings per head.

22. In some cases a large part of the monetized agricultural output is turned over as payment of rent to owners who are economically passive, for example to absentee landlords. The propensity to save out of such rentier income is likely to be low, since such rentiers normally have little motive for saving. They have no business motive, and since income derived from the ownership of land may be regarded as safe and permanent, there may be little retirement motive for saving either.

23. Personal savings take the form of cash, sight deposits (whether in current accounts or savings accounts), time-deposits, securities, life insurance policies and contributions to pension schemes. Relatively substantial savings in developing countries are held in the form of cash, the most obvious reason for this situation being the inadequacy of the financial intermediation framework. The hoarding of cash and the preference of savers for other highly liquid types of savings may be attributed to a number of factors, including the desire to have cash on hand for use in emergencies or in speculative transactions as a hedge against the gradual depreciation of the real value of savings, indifference to, or ignorance of, the interest that could be earned if the savings were deposited with a savings institution, and even mistrust of financial intermediaries. The development of banking services towards more advanced customer-oriented concepts including payment of wages and salaries, pensions etc. via bank accounts, might increasingly counteract these types of behaviour.

24. Efforts to increase the aggregate volume of personal savings deposited with financial institutions have involved the use of various incentives adapted to the social and economic conditions in the countries concerned. These incentives may be classified into three main categories:

(a) Incentives involving the protection of savings;

(b) Incentives involving higher rates of return on savings;

(c) Incentives involving the offer of credit facilities to savers.

25. The protection of savings may relate to their nominal value, their real value or both. Protection of the nominal value of savings depends on a combination of factors, namely: efficient and prudent internal management of savings mobilization institutions supplemented by efficient government supervisory action; availability of adequate risk-bearing resources, supplemented by the existence of lenders of last resort; and availability of a formal guarantee of all or part of the funds deposited with savings mobilization institutions.

26. With regard to the maintenance of the real value of savings, it is well known that persistent inflation results in a redistribution of real income and wealth which benefits those whose income and wealth increase more rapidly than prices and is prejudicial to those whose income and wealth lag behind the rise in prices. The latter group includes fixed-income groups and pensioners,

holders of bank deposits and holders of fixed-interest securities and insurance policies. Inflationary pressures tend to curb the propensity to save, thus diminishing the volume of voluntary savings available for productive investment. The continuous erosion of the purchase power of money undermines the ability and willingness of households to save in monetary forms and induces a shift to domestic non-monetary assets such as land, housing, precious metal and jewelry, or else to foreign assets. Various techniques have been used to counteract the effects of inflation. They include techniques which do not adjust the value of financial transactions to the actual rate of inflation and the techniques which do. The techniques in the first category involve increasing interest rates on both savings and loans to a level commensurate with the expected rate of inflation. The techniques which adjust savings transactions and loan transactions so as to maintain their real value are known by various names such as indexing techniques, value-linking techniques, monetary correction techniques and purchasing power guarantees.

27. The incentives involving higher rates of return on savings include attractive rates of interest, tax privileges and premiums and bonuses. Concerning incentives involving the use of credit facilities to savers, the promise of liens as a means of encouraging personal saving goes back to the origin of co-operative and mutualist credit, although its use has spread since the end of the Second World War, both geographically and in range of purposes.

## B. Enhanced mobilization of private foreign investment

28. In 1995, private capital flows to developing countries exceeded $170 billion. However, 75 per cent of those flows went to just 12 countries. About 50 countries - most of them very poor - received virtually no private flows. Addressing the Board of Governors of the World Bank Group in October 1996, the President of the Bank observed "Our new world of open markets raises the stakes for developing countries. Investment is linked to good policies and good governance, liberal trade regimes and high savings rate, combined with sound legal and judicial systems. Simply put, capital goes to those countries that get the fundamentals right".

29. The internal rate of capital formation in many developing countries and transitional economy countries is far below that necessary for satisfactory development performance. If such a rate is to be achieved, there must be a very large increase in the rate at which capital flows into those countries from outside sources. Private foreign investment may give a great impetus to economic development, as it provides capital-importing countries not only with much-needed capital, but also with managerial and technological know-how. In particular, it may help to diversify the economy and to strengthen exports through improved technology. The attraction of private foreign investment requires a sound understanding of the rights and obligations of capital-importing countries, investors and Governments of capital exporting countries.

30. Joint ventures ideally provide a highly desirable arrangement for bringing together foreign private capital, Governments of capital-importing countries and local entrepreneurs. However, the extent of participation of local capital in individual projects depends on such factors as public policy, local conditions

and the availability of domestic capital and entrepreneurship. There may be a need to reform the tax systems in both capital-exporting and capital-importing countries so as to encourage investment in the latter. Bilateral tax treaties provide an important medium for defining the scope of tax liability in both categories of countries eliminating double taxation and avoiding the negation of incentives afforded by capital-importing countries. International double taxation has a detrimental effect on the movement of capital, technology and persons, as well as on the exchange of goods and services. The removal of this obstacle is highly important for the development of economic relations between countries. In particular, it is most desirable to clarify, standardize and guarantee the tax situation of individuals or enterprises deriving income from, or owning capital in, other countries. Bilateral tax agreements constitute by their very existence a proof of active encouragement of foreign investment. They allay legitimate tax concerns of private foreign entrepreneurs about policy reversals and sudden unexpected decisions prompted by domestic political considerations. They are viewed as placing on an equal tax reciprocity footing countries possessing equal tax sovereignty, but unequal economic and financial status. The constantly evolving nature of fiscal circumstances makes it necessary at the current juncture to revise the 1979 United Nations Model Double Taxation Convention between Developed and Developing Countries to take into account the growing globalization and liberalization of the world economy, the broadening of international fiscal relations, the emergence of new technologies and new methods of effecting cross-border transactions and the increased sophistication of transfer pricing techniques and tax evasion and avoidance practices.

31. Domestic financial institutions have served as a catalyst in attracting foreign capital and the development of capital markets so as to increase the rate at which domestic private capital is generated. Such institutions as the national development banks combine specialist knowledge of finance and industry with an awareness of local conditions and problems. They are, therefore, well placed to deal with questions involving relations with local partners, transfer of technology and the scale of investment required for particular projects. They can also assist in the promotion and organization of other financial bodies such as local stock exchanges and may introduce new forms of investment media.

## II. IMPROVED GOVERNMENT FINANCIAL MANAGEMENT (PUBLIC EXPENDITURE PLANNING, BUDGETING, PERFORMANCE EVALUATION AND ACCOUNTABILITY)

32. Developing countries and transitional economy countries must constantly bear in mind that government financial management plays a major role in the implementation of policies aimed at promoting national economic social and other developmental goals. Government financial management encompasses all or part of the processes and functions of planning and programming budgeting, budget execution and accounting audit and evaluation. It is aimed at ensuring that to the maximum practical extent, a government's financial resources are used lawfully, efficiently and effectively and with transparency and accountability to the legislature and the people.

33. Financial management reform typically incorporates the following components:

(a) Use of structured planning and programming as a means of evaluating and selecting ways of achieving desired objectives;

(b) Taking resource allocation decisions within the framework of a unified budget;

(c) Integration of budgeting and accounting;

(d) Use of accounting principles that match service delivery with service costs;

(e) Encouragement of financial accountability;

(f) Measurement of outputs as well as inputs;

(g) Preparation of consolidated reports.

34. As the Group of Experts on Public Administration and Finance noted in the report on its twelfth meeting (A/50/525-E/1995/122, paras. 113-114):

> "In many countries, financial management capabilities have been eroded by the pursuit of financial populism, ineffective and distorted budgetary mechanisms and the breakdown of existing financial management institutions.
>
> "A central concern for all countries is how to harmonize methods of strategic management and control of aggregate financial variables with processes for changing expenditure priorities and enabling effective and innovative management of service delivery institutions".

35. In view of the limited buoyancy of revenue mobilizations, the financial resources obtained, whether from foreign or domestic sources, must be used rationally if development goals or planned fiscal adjustments are to be attained. Accordingly, an increasing number of countries have been re-examining their expenditure priorities with the dual aim of curtailing their fiscal deficits and ensuring that the available financial resources are put to the most effective use. Budget administration and expenditure monitoring and control procedures must be improved. Reduction in the overall budget deficit tends often to be achieved by expenditure-containment measures rather than revenue-increasing measures. Indeed, in the short term, the possibility for substantial increases in term, the possibility for substantial increases in revenue is limited. More emphasis should be placed on controlling expenditure growth, given that the expenditure base is generally larger than the revenue base. Good budgeting is a prerequisite.

36. Budgeting ideally involves:

(a) The appraisal of various governmental activities in terms of their contribution to national objectives;

(b) The projection of government activities over an adequate time period;

(c) The determination of how these objectives can be attained with minimum resources;

(d) The revision of the budget, in the light of changing circumstances and experiences.

All budgets are plans, but not all plans are budgets. Generally speaking, a plan is aimed at identifying and defining the policies best calculated to achieve objectives; it provides guidelines for policies through the translation of these guidelines into physical targets and specific tasks.

37. Numerous countries have adopted the planning-programming-budgeting system, which specifies programme objectives in quantitative terms, measures benefits and evaluates the cost of each programme in the light of the expected results and the results actually achieved. Indeed, the scope of a government budget should not be limited to a statement of the receipts and expenditures of government, but should reflect the overall concerns of development. In order to give a comprehensive picture of government strategy, a central government budget should cover consolidated transactions of the levels of government and of government entities. Similarly, to ensure consistency and balance in the mobilization and use of real resources, the main budget should be accompanied by budgets for foreign exchange, credit manpower and other real and material resources. Multi-year budgeting stimulates the formulation and pursuance of long-term and consistent policies for the mobilization of resources. It brings into focus issues of demand management and real resource balance and enables coordinated and uninterrupted implementation of long-term projects.

38. Programming budgeting is an effective management tool in developing countries and transitional economy countries, it must take into account uncertainties of both external and internal origins, which are likely to increase in the foreseeable future. In order to avoid major economic collapses and setbacks, such countries have to establish reserves not only of foreign exchange, but also of other material resources; they should exert a substantially greater control over income distributions and national flow of funds. Increasing external vulnerability exerts a strong influence on budgeting. Coping with uncertainties calls for considerable innovation and flexibility in budget policies and techniques. Success in the preparation of comprehensive budgets in the formulation of sound budget policies and in the monitoring of budget implementation depends on the availability of required data and information. Measures must, therefore, be implemented for improving the collection and compilation of needed data.

39. In the monitoring of the development process, agencies and officials responsible for budgets and programmes need continuous information on the structure of the economy, the mobilization and use of resources and their costs, the outputs generated and the contribution of outputs to national objectives and goals. Moreover, data is required, not only on the financial aspects of transactions, but also on their economic and physical aspects and performance. In order to achieve consistency and allocative efficiency in the management and implementation of programmes and projects, such data is needed at the national,

sectoral, programme and project levels. It may be difficult to generate such information in many countries because of the weakness of the accounting system. The reforms needed in these systems should include the reconciliation of budget and accounting structures training of accountants, decentralization of accounting responsibilities, proper record-keeping and production of timely and accurate data.

40. The scope of public accounting systems may need to be extended to define and introduce new accounting concepts and to establish multiple accounting structures to generate the various kinds of data required for managing public affairs and measuring the cost, performance and productivity of government programmes and projects. The strengthening of accounting at the project level can improve management of the project and also throw considerable light on the efficient use of resources and on optimal resource mixes.

41. In many countries, there is little liaison among planning, budget, accounting and audit agencies. If accounting is to serve the overall needs of financial management, coordination among all these agencies must be ensured.

42. With regard to public enterprise accounting, management accounting needs must be formulated in terms of sources and use of finance, draft on real resources, value-added in production, outputs generated, rate of consumption, fulfilment of objectives etc. As a first step, it is essential to establish uniform, but practicable definition of concepts. Clarity in concepts is a prerequisite for the development of a methodology and a coherent framework for evaluation. Practical approaches in accounting are flow-of-funds accounting, cost accounting, cash management accounting and depreciation accounting. The principal problem in cost accounting is to strengthen its use and extend its application to various facets of operations.

43. Quite often, the function of traditional audit, which is to verify the legality and financial accuracy of transactions, is not effectively performed, owing to the weakness of the accounting systems that provide the basis for audit, the lack of trained auditors, the insufficiency of the resources allocated to audit, the absence of clearly defined audit standards and, in some cases, the less than full independence enjoyed by audit authorities. Several measures are essential to enable audit systems to participate with other relevant agencies in the task of evaluating the efficiency and effectiveness of government programmes and projects. In the first place, budgeting has to provide a foundation for audit of performance. Planning and budgeting have to formulate clear targets and specific efficiency goals against which performance can be measured. A comprehensive methodology of evaluation incorporating targets efficiency goals, and target efficiency-related reporting and analysis needs to be developed to facilitate the audit of performance and to link it more closely with programme and project implementation. Agencies involved in planning, budgeting, accounting and audit have to collaborate in jointly defining the underlying concepts and units of measurement. They have to agree on their respective roles in performance audit and on the linkages between internal and external audits.

44. A sound public financial management system must be supported by an appropriate audit system which will determine how public resources have been

used, evaluate the results achieved with those resources and verify compliance with legal accounting and administrative provisions and procedures. An adequate integrated public finance management and auditing system is essential to sustainable economic growth and the strengthening of democracy. It ensures that the Government will obtain the necessary resources while satisfying the collective needs of the population through the efficient, economical and effective use of those resources. It strengthens democracy by fostering accountability of government officials and promoting the credibility of the Government through transparency.

45. To facilitate measurement of the efficiency of public commercial and industrial enterprises, there should be clear guidelines on the objectives to be attained at both the sectoral and plant levels. Productive efficiency is a prerequisite for profitability. Precise guidelines should be provided at the plant level and should indicate clearly the goods and services in respect of which subsidies are warranted on grounds of social welfare considerations. Such guidelines should be consistent and apply equally to both public and private enterprises producing the same goods and services. Pricing policies should cover the costs (operating costs, depreciation, interest etc.) and, where feasible, aim at maximizing profits. Instead of concentrating the ownership of assets of non-privatized public enterprises entirely in government hands, workers, farmers, artisans, cooperative societies etc. can be induced to subscribe to the equity and loan capital of such enterprises. Through linkages, public enterprise involvement may induce private sector initiative and investment and an accelerated growth of backward areas.

## III. PUBLIC ENTERPRISE REFORM AND PRIVATE ENTERPRISE DEVELOPMENT

### A. Public enterprise reform

46. Public enterprises have played an important role in many countries, both developed and developing, notwithstanding differences of political regime and philosophy. In many cases, they were established because private entrepreneurs did not have sufficient capital or incentive to undertake investments of benefit to the economy as a whole or to avoid the establishment of a private monopoly. Other reasons included distributional and allocative considerations, a desire to provide essential consumption goods and intermediate inputs at low prices, and the need to raise government revenue in the face of an ineffective tax system. Constituted as corporations, companies, holding companies, boards, statutory authorities, special accounts and autonomous agencies, they have encompassed not only public utilities and public transport (sectors in which they usually originated), but also other sectors including banking and finance, trading, tourism, agriculture and high-risk sectors such as aerospace. Their functions have included the manufacturing of capital and consumer goods, and mining and extractive industries. In a number of countries, strategic sectors such as energy, transportation, communications and iron, steel and coal productions have been completely operated by State-owned enterprises.

47. In recent decades, however, there has been increasing concern about the financial performance of the latter. Their dependence on the Government for subsidies and other forms of assistance has contributed to deficits in

government budgets and has aggravated inflationary pressures and difficulties in controlling aggregate spending in national economies. As the growing operating deficits of inefficient public enterprises compounded the decline in real fiscal revenues during the recession of the early 1990s in many developing countries, disillusionment with their performance became increasingly common. The World Bank and several members of the Development Assistance Committee of OECD suggested efficiency measures which included closure investment, reduction of functions and private contact management. Western aid agencies generally refrained from financing State industrial enterprises, except where large economies of scale could be achieved only through public corporations, as in the case of certain fertilizers and metal plants in low-income countries.

48. A notable feature of the late 1980s and early 1990s was the ability of some developing countries to accelerate growth or maintain relatively high growth rates in the face of recession in the industrial world. However, in Central and Eastern Europe (including the former Union of Soviet Socialist Republics) the difficulties inherent in introducing viable market and State mechanisms ab initio to replace the defunct system of control and command took a severe toll, with sharp declines in industrial output, shortfalls in agricultural production, disruption of trade flows, external financial strains and fiscal imbalances.

49. The 1990s have seen the public sector in developing countries and transitional economy countries in severe crises, and radical reforms have often been needed. Three major options for reform emerged: restructuring, liquidation and privatization. No single option has been applicable everywhere and much depends on the performance record of a given public enterprise as judged against the objectives set for it. Privatization of enterprises partly or wholly owned by the Government and the restructuring of key strategic entities may be considered the most desirable options, particularly when a public enterprise is plagued by bad management owing to the lack of an effective system of ownership, control and budgeting, or to political pressures and corruption. Often, public enterprises have been pursuing goals having little or no connection with the original rationale for their establishment and some have been allowed to continue operating ever when the reason for their existence no longer obtains. Privatization should not be equated with abandonment of all government intervention.

50. In most developing countries, government intervention through the provision of training, collaborative research and sometimes temporary budget support for expanded operations has not been detrimental to private initiative. Governments must, of course, assume their responsibilities by acting to foster financial stability and stimulate the level of economic activity.

51. A healthy dose of public prudence, scepticism and pragmatism is essential in order to achieve a smooth transition from communism to capitalism without reaching too far and going too fast. Public enterprise reform should be introduced thoughtfully on the basis of facts, not fiction. It should aim (a) at improving non-privatized public enterprise performance through the strengthening of management capabilities in corporate planning, performance contracting, financial accounting and information systems and (b) at strengthening the capacity of the overseeing institutions to manage the

performance contracting, financial accounting analysis and public enterprise information systems and assist in the public enterprise reform process.

## B. Private enterprise development

52. Private enterprise development can bring about a more widely based and dynamic development process. In developing countries and transitional economy countries there are actual or latent entrepreneurial resources which can be mobilized: there are many individuals who want to engage in activities of their own in which they see a direct relationship between their own efforts and the results achieved and from which they can derive profits and a personal sense of accomplishment. Broader mobilization of entrepreneurial talent can play an important role in exploiting widely scattered raw materials and in providing goods and services catering to local, as distinct from national, market requirements.

53. Entrepreneurship development must be thought of in the foreseeable future as a process in which small capital is allocated in various industrial and commercial fields. Capital is in very short supply and often unavailable through the ordinary channels. Banks are reluctant to incur the risks involved in the financing of indigenous businesses and will ration credit to entrepreneurs despite the desire of the latter to expand their business rapidly. New entrepreneurs may have to start with scarce capital funds and expand only to the extent to which they can generate and reinvest profits. Sometimes the intrusion of political considerations may force banks to provide loans to individuals with little or no capital of their own, who lack the business and technical know-how needed to use the loans wisely. Inadequate pre-investment investigations and the lack of any post-investment supervision will inhibit entrepreneurial development. The establishment of some sort of business extension service and of a proper system for guaranteeing bank loans wholly or partially in cases whose financing institutions do not want to assume the entire risk might promote entrepreneurial initiative and development. The guarantee scheme should stimulate that claims will be honoured within a specified time-limit after defaults are duly certified.

54. Entrepreneurship development can help to mobilize savings which otherwise would not be available for development. At the outset, small enterprises are almost invariably self-financed and can grow only through the reinvestment of internally generated profits. Because of the low capital-output ratios which generally characterize small and medium-sized enterprises, their development tends to bring about more employment in relation to investment than is the case with large enterprises. Practical constraints on the capacity of State and cooperative institutions call for the development of private initiative. The more that is privatized, the more crucial is the role of Government in ensuring that the enlarged private sector, in following its private interests, is also meeting the requirements of society as a whole. While the private sector is the "engine of development", the Government has to lay and maintain the "tracks" that is, create and maintain the legal and regulatory environment for private ownership and fair competition, correct appropriately for market failures, protect the disadvantaged and maintain economic stability, law and order. Similarly, only the Government can lead in envisioning and planning, in

consultation with the business community, the key support institutions and infrastructure - physical and human resources - for business to thrive in an enabling environment conducive to private sector growth and investment support institutions include specialized agencies in fields such as finance, research and development acquisition of technology, export promotion, market intelligence and human resource development. All areas of policy impact on business so their business consequences need to be explored with relevant private sector representatives in a spirit of partnership. Particularly important are policies on trade and liberalization, deregulation, privatization competition, human resource development, labour investment promotion, anti-corruption and bribery action and environmental protection.

55. At the Microcredit Summit held in Washington, D.C. on 2 February 1997 (see A/52/113-E/1997/18), Presidents of the world's poorest nations, development bankers and global corporate chiefs promised that they would work to steer $10 billion in commercial credit to small-business owners worldwide living below the poverty line. Microcredit supporters hope to reach their goal of nurturing prosperity from the ground up by tapping about $10 billion of "private capital flows" from commercial banks and investors. An equal amount of aid money would come from charities and Governments in the next seven years. The conference organizers said that by 2005,they intend to steer some $21 billion into 100 million micro-loans. The organizers of the Summit observed that what is needed for small lending to grow are small institutions through which the credit can be processed and that building them was the goal of the Summit organizers. It was noted that since market-friendly South-East Asian and Latin American countries have posted growth rates outpacing developed country rates in recent years, the idea of shifting into private hands the industries and services formerly run by the State has become popular in development circles. As a result, entrepreneurship is a new buzzword among aid providers. Sheikh Hasina, the Prime Minister of Bangladesh declared that loans as small as $100, often called microloans or microcredit "have the potential to strike a serious blow to poverty, in my country and in countries all around the world".

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# STRENGTHENING GOVERNMENTAL CAPACITY IN THE MOBILIZATION, MANAGEMENT AND ACCOUNTABILITY OF FINANCIAL RESOURCES

Report prepared by the Secretariat*

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# I. INTRODUCTION

1. New policies are placing heavy demands on public financial management systems in developing countries and countries in the process of transition from command economies. In its resolution 50/225, the General Assembly stressed the importance of strengthening government capacity in financial management through public sector administrative and management reform. Where financial management is concerned, both groups of countries share the experience of a transition - moving from a more statist orientation to a more restricted role for government. Both are urged toward liberalization of the economy, privatization of public enterprises, and reduction in the size and scope of government.

2. The following figure presents schematically the major elements of a financial management system. It is built around the conventional cycle of revenue mobilization, resource allocation, budget implementation, and evaluation. It combines deliberate fiscal and expenditure policy-making with confirmation that resources have been expended in accordance with planned allocations in a closed loop.

3. As government activities have grown and become more complex, each phase of the cycle has come to require more specialized activities to implement it. These are shown as sub-heads in the figure, and are essential to the effectiveness of the system.

4. The figure conceptualizes the financial management system as a cycle. The system also comprises a large number of people working in central bank, treasury, ministry of finance, planning organization, prime minister's office, audit body, programme agencies and field offices.

5. The financial management system outlined in the figure is not comprehensive. Typically, government corporations and enterprises stand outside the system, and programme agencies receiving donor funds do not always cooperate in the primary financial management system.

6. Financial management is often portrayed as a neutral, technical process, amenable to improvement according to accepted principles through technical assistance, training, information process technology, and the use of counterparts. Government cannot insulate financial policy-making and management from interest groups, political parties and factions, multinational corporations, influential individuals, other Governments, and international organizations. Revenue policies are not neutral - they favour certain segments of the population and penalize others. In this area, tax administration cannot be separated from tax policy.

7. Fiscal systems should be reoriented to encourage private enterprise, to favour consumption over income taxes, to emphasize economic services over social services, and to target the latter toward the very poor. Such policies involve political choices; they result in economic and social changes such as changes in price levels, particularly for basic goods, debt levels, incomes and standards of living, regional disparities in wealth, urban-rural relationships, and unemployment.

Figure. THE FINANCIAL MANAGEMENT SYSTEM

ALLOCATES RESOURCES

Macroeconomic policy-making

Public expenditure planning

Public investment plans

Pre-budgeting

Budgeting

Programming funds

| MOBILIZES RESOURCES | MANAGES AND IMPLEMENTS |
|---|---|
| Forecasting | Purchasing |
| Fiscal policy-making | Inventory control |
| Revenue assessment | Accounting |
| Revenue collection | Monitoring |
| Debt management | Reporting |
| | Cash management |
| | Cost estimating |
| | Contracting |
| | Disbursement |
| | Asset management |

EVALUATES

Compliance and performance

Auditing

8. In the case of the transitional countries, it is necessary to reconstitute government and define the entire public-private relationship, particularly the tax system, the position of public enterprises, the whole system of prices, and the provision of social services and a social safety net. These changes involve:

(a) Guidance of the economy: devising macroeconomic policies; medium-term expenditure planning and changes in budget priorities; implementation of strategic adjustment plans; public investment planning; regional development policies; and oversight of the entire government financial system;

(b) Management of expenditures: re-examining the uses to which public resources are put; and changing priorities to implement changes in the role of

government, involving a longer-term focus, implementation of economy, efficiency and effectiveness throughout the public sector, and clarifying information;

(c) Revenue mobilization: devising and implementing policies not only to finance programmes, but also to affect the balance between public and private sectors, and to encourage economic growth and realistic prices; and efficient revenue administration;

(d) Accountability: ensuring transparency; eliminating leakage of public funds; enforcing standards of honesty; and setting up and using information systems to track funds and assist decision-making; and evaluate programmes.

## Difficulties of reform

### Demands of environmental turbulence

9. Financial policy makers and administrators in developing and transitional countries work in an environment of increasing turbulence. Political changes have brought their own uncertainties with the demise of communism, the growth of fundamentalist political and religious movements.

### Shifts in fashion

10. Following the Second World War, the restricted role of government was abandoned in favour of a planning role. In communist countries, national economic planning embraced the whole economy, aspiring to the centralized allocation of all societal resources. In developing countries, comprehensive economic planning became the norm. Budgeters in communist countries derived their figures from the workload projections in the plan, as well as their prices, much in the way that performance budgeting aims to formulate budgets in the West.

11. By the end of the 1980s, comprehensive economic planning had been discredited. In many transitional countries, the budget was still seen as an appendage to the plan, without autonomous functions of its own. In developing countries, planning had become institutionalized in a dual system of recurrent and development budgets, each with its own decision-making process.

### Personnel

12. With the expansion of the private sector, opportunities for scarce talent have increased, and made it more difficult for the public sector to recruit high-level qualified personnel. Computerization, similarly, has eliminated much of the drudge work previously carried out by hand and has placed a premium on systems design, information management, technical capabilities and analytical understanding.

### Structural and institutional problems

13. The number of different institutions involved in financial management makes cooperation among them a necessity. Budget coverage is often restricted, as

ear marked or special funds evade budgetary discipline. The concentration of reform efforts at the centre ignores the need to improve capacity in the system as a whole and throughout the institutions managing public finances, particularly the programme units.

14. In many countries the problems persist and have been extraordinarily resistant to amelioration. In what ways Governments may use their institutions and processes "to establish and pursue national objectives, to promote favourable economic conditions, to manage its diverse activities, to respond to the demands of citizens and groups, to assess past performance, and to plan for the future"? (Schick, 1990: 1). This paper will discuss the strengthening of capacity in three areas: central policy-making; public expenditure management and accountability; and revenue mobilization.

## II. CENTRAL POLICY-MAKING

15. In most countries, budgetary policy has been centralized in a ministry of finance. Ministries of finance are involved in both functions through fiscal and macroeconomic policy-making as well as their control of the budget process.

16. Ministries of finance would need to take on a more sophisticated policy-making role. In Yehezkel Dror's phrase they would become a critical component in "the thinking part of government". Budgeting would encompass planning, ending dual control of budgets. Tight detailed control would give way to decentralization. Macroeconomic management would replace short-term crisis management. Finally, the ministry of finance would undertake an oversight role of the entire financial management system as chief financial officer for the Government.

### From planning to budgeting

17. The demise of comprehensive economic planning has meant the demise of central planning agencies in many countries. In developing countries many planning agencies have already been absorbed in ministries of finance. In transitional countries, planning was far more important than budgeting, and ministries of economic planning were better staffed and more prestigious than ministries of finance. One solution, in both transitional and developing countries, would be to incorporate planning as a technical analytical unit in the ministry of finance, carrying out studies and ongoing economic analysis as required. The merging of planning and budgeting would spell an end to the dual budget process.

### From control to decentralization

18. Traditionally, ministries of finance have attempted to maintain tight control of expenditures through detailed scrutiny of expenditure estimates on a line-item basis. Yet the strategy was often self-defeating: agencies tried to gain their own independent revenue sources, thus narrowing those available to the ministry of finance;

19. In recent years, a more decentralized approach to financial management has come into vogue in several industrialized countries. The role of the centre is to set standards and performance measures, allowing managers to determine the means by which these objectives are met.

From crisis management to macroeconomic planning

20. In both developing countries and transition countries, crisis is often the norm. Lacking institutional capacity on which to rely, finance officials have resorted to a number of strategies to maintain cash flow. None of these measures works very well: low revenue estimates foster the belief that resources are being concealed; ceilings turn into floors; across the board cuts may hurt worthwhile services more than wasteful ones. Financial management cannot really be handled effectively in these ways.

21. Theoretically, it would be better to use the resources of the ministry of finance in macroeconomic policy-making to avert crises through contractionary policies in times of boom and more expansive ones in downturn, thus smoothing out economic fluctuations. Macroeconomic planning requires "formal forecasting to help assess the main economic and fiscal parameters for expenditure planning, a fiscal reporting system to monitor fiscal performance against that planned, a process of review to reassess the economic and fiscal environment and adjust the budget in light of changed circumstances". (Allan, 1996: 102)

From reaction to direction

22. Unrealistic budget estimates have resulted in large variations between estimates and outturn. The problems of expenditure control have been aggravated by poor accounting procedures and inordinate delays in compilation of reports. (Diamond, 1996: 59)

23. One means advocated for strengthening budget capacity has been medium-term expenditure forecasting and planning. Public expenditure planning aims to improve control over the aggregate level of public spending and resource allocation through better information on medium-term costs of current expenditure policies and revealing links between capital expenditures and future recurrent costs, enabling adjustments to be made gradually.

From stabilization to structural adjustment

24. During the 1980s and early 1990s, many developing countries in the process of transition gained IMF loans to bridge immediate economic costs, primarily for purposes of short-term stabilization. Meanwhile, the World Bank, which had primarily provided project lending for developing countries, was taking a broader view and issuing structural adjustment loans and sectoral adjustment loans. Unlike project loans (which were narrowly focused on a single project or group of projects) and stabilization loans (which were concerned with immediate alleviation of indebtedness), structural adjustment loans were designed to influence the nature of the economy in the longer term.

25. Structural adjustment has been defined as a cluster of policies designed to bring about a viable balance-of-payments situation (Riddell, 1987). According

to the Third Report on Adjustment Lending of the World Bank: Private and Public Resources for Growth, the purposes of these policies are:

> "to tackle macroeconomic difficulties, usually manifested in rising inflation and balance of payments problems, and to shift an economy to a new sustainable and poverty-reducing growth path. Typical adjustment policies are cuts in public spending, opening up to external or domestic competition, reforms in prices to allow them to reflect economic values, measures to improve government delivery of infrastructural and social services, and development of the institutions required to a well-functioning market economy, notably a sound financial system." (World Bank, 1992: 1)

All these loans involve considerable conditionality. The capacity to handle such short-term exigencies, while simultaneously maintaining course in implementing privatization, trade and price liberalization, and cutting subsidies and budgets, must clearly be considerable.

From central dominance to local self-management

26. In most developing countries, as well as in previous experience in transitional countries, central Governments have regularly been required to cover local government deficits. In transition countries, central, regional and local budgets constituted in fact a single budget, directed from the centre. Central authorities have reacted by trying to influence local policies, constraining their borrowing, forcing reduction of local services by cutting transfers, and taking over certain activities.

27. In a more decentralized system, responsibilities would be reallocated between central and local government, and revenues for local responsibilities would be primarily raised at local levels, with some agreed mechanism for revenue-sharing according to a formula to assist poorer areas. On the other hand, it has been argued that greater decentralization to local levels would increase opportunities for corruption, lead to even greater disparities among regions, prevent coherent policy-making, and encourage secessionist tendencies.

From donor-driven priorities to public investment planning

28. One of the most important influences on the budgets of developing countries has been external aid, primarily in the form of project-tied assistance. Governments have often been unable to coordinate this aid effectively: they deal with a multitude of donor agencies (each with its own procedures and requirements), which often try to insulate their projects from the Governments' perceived administrative shortcomings. Donor aid has in many cases distorted budget priorities by skewing Governments' investment decisions toward existing or potential externally financed projects.

29. As part of structural adjustment reforms, recipient countries have been required to initiate and implement public investment programmes (PIPs), which aim to rationalize public sector investments. Ideally they should strengthen project management, relate projects to financial capabilities, coordinate and

prioritize the public investment programme, and relate it to overall economic strategy. (Bird and Stevens, 1991)

30. The centralizing emphasis of PIPs appears to run counter to advocacy of decentralization. Where the ministry of finance is unable to gain complete hegemony, similar problems are likely to arise as those with dual budgeting. In practice, it has proven difficult to centralize all the information required, and the project data banks have been slow to implement and tedious to maintain. There is also some evidence that the PIP favours large projects and concentration of aid in them, dealing with problems of data collection and project management through centralization. In short, there has been relatively little evaluative work to justify PIPs as useful tools for planning and budgeting. (Martell, 1996: 6; Cohen et al., 1995)

From institutional isolation to responsibility for financial management

31. In the past, ministries of finance have often had an adversarial relationship with programme agencies. From their perspective, ministries of finance have seen agencies as wasteful, improvident, inefficient, profligate and wayward. In effect, ministries of finance are expected to be the chief financial officer for the Government as a whole, with responsibility for the quality of financial management throughout government.

32. In general, improvement of capacity for financial management would require transformations in the central policy-making part of Government, most notably ministries of finance. Briefly, they would be required to give up detailed control in favour of policy-making and decentralization, emphasize medium-term over short-term preoccupations, and take on a proactive role in investment planning, budgeting and financial management.

## III. PUBLIC EXPENDITURE MANAGEMENT AND ACCOUNTABILITY

33. Ideally, all parts of the financial management system should be integrated in a smooth flow of information, decisions and funding. Each part of the system should cooperate with the others, and strong agency planning, budgeting, accounting, reporting, auditing and evaluation should complement central policy-making. Spending agencies are being asked to reorient their modus vivendi, at the same time strengthening financial management processes that have been severely criticized in the past. The first problem arises from the need to change while simultaneously downsizing their workforce, but effective implementation of change also requires resources - skilled personnel, new equipment, staff training, and new programmes.

34. The second problem relates to the immediate impacts of structural adjustment on the environment at large. These effects may include strikes and demonstrations, gaps left by cuts in government services, rising crime and insecurity, growth in various forms of corruption, increased environmental depredation, and a growing gap between rich and poor.

Budget structure

35. The pooling of all government expenditures in a single budget is a cardinal principle of budgeting insisted on by international lending agencies. Budget unity promotes some purposes (e.g. centralized decision-making, complete knowledge of resources, ability to monitor uses of funds and reallocate during the year, and hedging against uncertainties), while impeding others (e.g. ability to raise money, protection of funds, capacity to get a job done, managerial autonomy, and defence against actions from the centre).

Budget classification

36. A major thrust to improve financial management has been efforts to change the classification of expenditures. The systems have in general proved disappointing. Various reasons have been cited: inadequate preparation and training for reform; difficulties in applying efficiency and effectiveness measures; lack of sustained high-level political commitment; and inability to link the systems with actual decisions made. The real difficulty seems to lie in the aims of reform, which are to change the processes by which decisions are made and to change those decisions themselves. To the extent that the reforms are disinterested and independent they are likely to be ineffective, and to the extent that they are the "captive" of a particular group, they may be opposed, sabotaged, or of short duration.

Budget implementation

37. Even the most carefully planned budget may founder during implementation. Budget cuts have been used to maintain control and have been implemented in a non-productive way, falling on operations and maintenance spending or delaying or cancelling capital projects, rather than furthering structural adjustment objectives through cutting salary bills or consumer subsidies.

Cash management

38. Good cash management improves cash flows and forecasts, reduces borrowing costs and/or increases investment income, assures that funds are available when needed, and facilitates payments. Inadequate cash management results in higher prices charged by suppliers (who face uncertain payment schedules), unnecessary expensive borrowing, and sometimes unproductive cash balances.

Accounting

39. Government accounts of developing countries have frequently been characterized as inadequate. (Wesberry, 1990: 345-374; Dean, 1996: 268) A recent analysis by Peter Dean has found a wide variation in the quality of accounting practices among different countries and a clear correlation between per capita income and higher education, and better accounting. Clearly if government capacity is to improve, good accounting is a prerequisite.

Auditing

40. Auditing practices again differ from country to country. In many countries, auditing has played only "a limited and severely constrained role in ... financial management systems". (Zody, 1996: 286) Achieving effective compliance auditing, as well as expanding the audit role to accord with greater managerial autonomy, would require a long-term, sustained commitment.

Accountability and integrated financial management systems

41. Weakness in the individual components of financial management add up to a system lacking in accountability. Reforms to increase accountability, therefore, need to consider the interdependence of the system as a whole. The development of integrated financial management systems (IFMS) in Latin America has attempted to respond to this need. The aim of an IFMS is "to improved quality of decision-making involving the use of limited financial resources" by integrating information. (World Bank, 1996: 12. This account is largely based on this document.)

42. IFMS is based on an entity, rather than a fund, approach to financial management to support a goal/performance orientation for government organizations. An entity is a single operating unit of government that interfaces in a variety of ways with other entities. Its core components are budgeting, cash and debt management and accounting. To these may be added ancillary components of asset management, procurement and personnel. IFMS emphasizes integration of these elements and the flow of information through a uniform classification of accounts, a single database and a single cash account.

43. IFMS is a decentralized system. The operation of IFMS depends on the reorientation of each of the core units and their integration within the system. Budgeting, from this perspective, is viewed not as a policy-making process, but as the source of a classification system appropriate for users at all levels. Accounting should record and integrate the results of all financial transactions that occur in the daily operation of government. Cash flow management should be carried out proactively in consolidating the cash resources of the Government and planning cash disbursements. Debt management should interface with the other three components: capital projects in the budget are often financed by debt; its service is recorded by the accounting system; and debt payments for capital and interest are made through the cash flow management system.

44. Successful implementation of IFMS requires a number of prerequisites. The system relies on computerization, but as a means, not an end in itself. IFMS requires a legal framework, contained in a law of financial management for the public sector, and related legal and constitutional documents, particularly a law of financial management and audit, guaranteeing an independent audit office.

## IV. REVENUE MOBILIZATION

45. Resources may be derived from both internal and external sources. Most developing and transitional countries rely on external sources for at least a part of their government financing needs. Such sources include donated funds and loans from international organizations, Governments and non-profit organizations. Existing heavy debt burdens in many countries clearly indicate the importance of a regular, stable and adequate flow of domestic revenues.

46. Both transitional and developing countries have seen a need to reorient their tax systems and strengthen their administrative capacity. In the Soviet era, tax policies were based on entirely different principles, and transitional countries have found it necessary to change the nature of taxation. In place of a reliance on high enterprise taxes and turnover taxes, they have had to devise policies for income and value added taxes (VAT) as well as individual social security contributions. (Caiden, 1993: 63-68) In developing countries there have been chronic problems of ineffective tax systems with widespread evasion, so that Governments have been unable to collect sufficient taxes to fund government activities.

47. The extent of de facto enforcement determines what taxes are really collected from whom and their revenue yield. The two main principles of efficiency and equity are now well accepted. Efficiency in this context means that taxation should be as neutral as possible so that it does not distort decisions that would otherwise follow the incentives and constraints of the market. Equity means fairness, following the principle of marginal utility, so that those with higher incomes should pay proportionally more so as to result in an approximation of equality of sacrifice.

48. All taxes have some distorting effects on behaviour: which are preferable? Equity suggests that individuals in the same position should be treated the same. From an equity point of view, it might be preferable to tax a relatively small number of rich persons, corporations and luxury goods. But from the standpoint of efficiency, such policies might have serious impacts on incentives and investment, while the least distorting goods to tax would seem to be those for which it is difficult to substitute, i.e. necessities, whose taxation would fall hardest on the poor.

49. During the 1980s, tax reform has taken place in a large number of countries, at all levels of development. "In virtually all these cases", Sven Steinmo concludes, "these tax reforms have meant lowering income and profits tax rates, cutting back tax expenditures, and broadening the tax base. ... Tax reform has now come to mean the redistributing of existing burdens downward". (Steinmo, 1993: 156) Specific policies vary from country to country, but observable trends have been towards a more inclusive and less progressive (flatter) income tax with fewer rates, and more reliance on VAT. In any case, tax reform has included and required changes in tax administration and redistribution of administrative resources.

50. The criterion for improvement is progress towards closing the "compliance gap", the gap between actual and potential revenues. (Bird and Casanegra de Jantscher, 1992: 1) Whatever policies are adopted, they will be

negated if there is a large compliance gap. Roy Bahl and Jorge Martinez-Vazquez explain, "Because low-income countries do not efficiently administer the systems they have in place, they fail to collect the true amount of revenue due, the efficiency objectives of the tax structure are not realized, and both the horizontal and vertical equity intent of the nominal tax structure are compromised." (Bahl and Martinez-Vazquez, 1992: 66)

51. The strategies for tax administration reform are not in doubt. The first principle is simplification. For example, the number of tax brackets in the income tax should be reduced and exemptions and deductions as far as possible eliminated. However, Bahl and Martinez-Vazquez argue that development which brings about a more complex economy may require a more, not less, complex tax structure. (Bahl and Martinez-Vazquez, 1992: 67)

52. The second principle is the need for a clear strategy of reform rather than ad hoc measures. It is necessary to evaluate the current tax system so as to understand where revenues presently come from, the uses of administrative resources and how they relate to revenues and the number of cases handled, actual and potential tax bases, and existing problems.

53. The third principle is a high level of commitment to reform, particularly at the highest levels, but also embracing all concerned. The way a tax system is viewed depends on perception - of the extent of evasion, fairness, complexity, arbitrariness, and the burden of administration on taxpayers.

54. The final principle is technical competence. Tax administration consists of routine tasks such as withholding of taxes, maintenance of accounts and collection of revenues, as well as more discretionary ones, including audit of returns. The methods for improvement are well-known: they include well-trained and well-compensated officials, tight control over cash, monitoring of information, systematic checks, internal security, close involvement of operating administrators and researchers, and timely and reliable operations.

55. A major reason is that Governments have been tolerant of evasion. Politically, where large taxpayers are few in number and influential, strict enforcement and the imposition of harsh penalties may not be feasible. It may be both expensive and impractical to pursue the real tax liabilities of the self-employed, petty traders and the informal sector, which also requires considerable discretion on the part of tax officials. (Barlow and Snyder, 1994: 77-89) Where illegal markets constitute a large proportion of the economy, improvements in the formal tax code will be irrelevant to large flows of income.

56. Nevertheless, recent years have seen improvements in some countries in the direction of simplification of tax codes, greater convenience for tax-payers, more efficiency and speed in administration, and better trained and used staffs. Computerization has also played a part in improving records maintenance and processing of returns, and its use is clearly indispensable in modernizing tax administration.

57. In each case, it is necessary first to review the strengths and weaknesses of the existing system, to set out feasible objectives, and to review comparative literature for similar experiences to guide reforms.

## V. CONCLUSION

58. The basic questions about strengthening capacity in public financial administration are not new. These questions have been answered in different ways at different times - through bureaucratic hierarchy, through planning and programme budgeting, and now through managerial decentralization linked to economic liberalization and restructuring. Is it likely that current approaches will yield greater improvement. A number of considerations indicate caution.

59. First, recent advocacy for decentralization reflects efforts in certain Western industrialized countries to decentralize management, empower lower-level officials, and increase participation. Decentralization, empowerment, and participation raise important political problems regarding concentration and delegation of power. Several of the reform proposals, such as medium-term expenditure planning, public investment plans and project data banks emphasize centralization, not decentralization.

60. Second, similar to earlier reform proposals, current advocates aim at a longer-term view: better forecasting, macroeconomic policy-making and planning are expected to overcome short-sighted decisions.

61. Third, proposals for integrated financial management recognize the interrelations and tremendous need for cooperation required in financial administration.

62. Fourth, the reform of financial administration is expressed in neutral language, divorced from policy content.

63. There will be few who deny a general need for improvement in financial administration. The record has often been one of mismanagement sufficient to negate policies. Administrative systems rarely provide adequate information for policy makers, so that decisions are made in an arbitrary manner. Reforms to improve transparency, access to information, basic financial "infrastructure" (e.g. accounting, auditing, handling of monies), and management responsibility for financial operations are long overdue.

64. Some countries have improved their financial management, while others have not. The basic questions still remain and give rise to many others. What are the pre-conditions for expanded capacity in financial administration? What should be the priorities in undertaking reform? How may environmental and institutional constraints be overcome? What would be an appropriate research agenda? What should be the role of external assistance? How may the processes of financial policy-making and administration contribute to a more democratic and productive society?

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